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Britain As Lender

By PAUL EINZIG

Correspondent Discusses the Effects of Britain's Credits to Her Former Allies Under Conditions in Which Great Britain Herself Is the Largest Debtor Nation in the World, and Is Suffering From a Serious Import Surplus and Extreme Shortage of Foreign Exchange. Holds Far Greater Danger to Britain Is Forthcoming Loss of Its Exchange Reserve Through Multilateral Trading Under the Anglo-U. S. Loan Agreement, and Looks to Remedy in Increased Exports of British Goods, and Present Policy of Reducing Home Consumption.

Paul Einzig

LONDON, ENG. — When Mr. Bevin announced in the House of Commons the conclusion of a loan agreement with Greece, a member of Parliament asked him whether the £10,000,000 loan would have to be spent in this country. The question was not an unnatural one; seeing that Britain's foreign exchange resources are declining, the Government could ill afford

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Needed: A New Labor Policy

By LEO WOLMAN*

Professor of Economics, Columbia University

Labor Expert, Asserting That the Serious Labor Situation Will Continue, Traces Labor Developments Since the Beginning of the New Deal and Contends That Failure of the Administration's Policies Has Become the Greatest Public Issue in the United States. Holds Attempt to Separate Wage Increases From Prices, Is Unworkable and Doomed to Failure. Denounces Government Interference in Collective Bargaining and Declares That There Is Now No Clear-Cut Workable Labor Policy. Says Wagner Act Is "Compulsory Unionizing" Legislation Without Means to Prevent Lawlessness or of Promoting Peace, and Urges a Full and Extended Congressional Investigation to Remedy the Lawless Conditions for Which Govern-

I need not repeat what you have already heard and what you know if you had heard nothing about it, that this is a pretty serious labor problem which this country has been facing in the last months and in my judgment will continue to face for some months to come. I know that this country in the face of this kind of problem is looking for solutions and I am in that unfortunate position of not having any solutions to offer.

Prof. Leo Wolman

At any rate, the way I think we ought to go at this problem is to get at its roots. I don't believe there are any magic formulae by which this question can be solved.

*An extemporaneous address by Dr. Wolman before the Mid-Winter Trust Conference of the American Bankers Association, New York City, Feb. 6, 1946.

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Foreign Trade and American Prosperity

By J. ANTON de HAAS*

Professor of International Relationships, Harvard University

Foreign Trade Specialist Holds There Is Too Much Optimism Regarding Export Opportunities and Points Out It Is Neither Wise Nor Profitable to Step Up Exports to $14 Billions. Says U. S. Export Activities Will Create Cutthroat Competition With Other Countries and Will Lead to Unsound Foreign Credits. Contends Our International Financial Relationships Are Lopsided, and Sees Danger in Rapid Relaxation of Trade Controls. Favors Private International Cartels.

The attitude of the American people with regard to foreign trade has undergone considerable changes in recent years. Before the war many voices were heard which minimized the importance of foreign trade to American prosperity. They pointed out how our total exports amounted to no more than 10% of our total production and from this they concluded that foreign trade was therefore of very minor importance to us. In recent months we have heard

J. Anton de Haas

*An address by Professor de Haas before the University of Cincinnati Business and Professional Men's Group, Cincinnati, Ohio, Feb. 1, 1946.

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Bureaucratic Investment Control

By DR. A. M. SAKOLSKI

Noting the Action of the British Government in Proposing a Permanent Law to Control Investments, Dr. Sakolski Contends That the Action Is Revolutionary and Contrary to British and American Traditional Policy of Government Non-Interference With Private Enterprise. Points Out the Dangers of Having Political Motives Over-ride Economic Motives Under Government Controls, and Concludes That Errors in Bureaucratic Judgments Are More Disastrous to Public Welfare Than Common Judgments Resulting From the Inter-Actions of Many Minds.

Dr. A. M. Sakolski

The Labor Government in Great Britain, intent on carrying out its Socialistic ideals, has introduced in Parliament a "Control of Investment" Bill. This measure, which had been expected for some time and which is generally recognized as a logical sequence of the nationalization of the Bank of England, carries not only a positive control of investment capital, but, in addition, a scheme to assist, through Government loans, certain industries which at any time are considered as essential in promoting a planned economy or of furthering political aims of the dominant political faction. Although Government financial assistance to specific industries is not new in Great Britain or in any other modern industrial nation, including

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A Hundred and Forty Million Partners

By WALTER E. SPAHR*
Professor of Economics, New York University
Secretary, Economists' National Committee on Monetary Policy

Dr. Spahr Condemns Attacks on Private Enterprise and Private Capitalism. Asserts These Attacks Mean the Replacing of Our Free Institutions by the Autocratic Governments Against Which We Fought. Decries Trend Toward More Central Government and Less Individual Freedom, Particularly in the Field of Competitive Business. Holds Competition Cannot Operate Unless There Is Both Economic and Political Democracy and That No Bureaucracy Can Meet the Efficiency or Intelligence of the People When They Are Free to Vote Their Dollars as They Think Best. Claims Government Has Allied Itself With the Employee Group, and Class Struggle Is Encouraged. Condemns Government in Business and Says That Liberalism Is Distorted From Its Historical Meaning.

I

In the 157 years since the adoption of our Constitution, the people of this country have reached the highest level of living of any nation on earth. They have accomplished more and have done it in less time than any other people in the history of the world.

Dr. Walter E. Spahr

This unprecedented accomplishment was launched in an atmosphere marked by a growing belief in individual freedom and the virtues of private enterprise, and at the end of a series of rebellions of people here, in England, and on the Continent against strong central autocratic governments.

The system of private enterprise and private capitalism,

*An address by Dr. Spahr at the Western Reserve University, Cleveland, O., Feb. 8, 1946.

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A Bonus Bond to Counteract E Bond Redemptions

By PAUL HAENSEL
Professor Emeritus of Northwestern University
Professor of Economics, Mary Washington College

Professor Haensel, Calling Attention to the Difficult Treasury Situation Which May Arise From a Rapid Redemption of E Bonds and the Dangerous Inflationary Trend That May Result, Proposes a Scheme for the Issuance of Premium Bonds, Redeemable in 20 Years, With Prize Bonuses at Regular Quarterly Drawings. Holds Interest Cost to Government Will Be Reduced and a Means of Debt Redemption Accomplished. Cites Russian and Other European Experience.

Our American financial policy during the War had two great faults: (1) the abnormal accumulation of government bonds in the banks and insurance companies, as was masterfully presented by Dr. Leland in his article published in the "Commercial and Financial Chronicle," Jan. 17, 1946, and (2) the issue of War Bonds Series E to the amount of some $30,000,000,000 which are simply cash in the hands of the broad masses of population; if the holders will keep them to full maturity on this cash will be paid a comparatively very high rate of interest, i.e., 2.9% cumulative in 10 years.

Paul Haensel

The banks and insurance companies are not particularly interested in the intrinsic value of the currency, especially under the regime of the Federal Reserve and of their relations with the Treasury: they have to pay their depositors and policy holders in the same currency, called dollars, whatever the real value of the latter may be. On the other hand, the E Series bonds are camouflaged cash and in case of a panic they may suddenly create a most serious dislocation of currency. They are a potential TNT in the economic life of the nation. Thus, the banks and insurance companies have no particular inducement to fight inflation and the broad mass of our population may easily fall into the whirlpool of rapid inflation through wholesale demanding "cash" for their bonds and entering the buying spree . . .

To my mind, the best policy to counteract this mence would be intensive redemption of the public debt at the rate of not less than $5,000,000,000 a year. Of course this will necessitate an extremely high level of taxation which, in its turn, will also have a beneficial effect in curbing inflation provided that this taxation will not be simply a "Soak the Rich" device or reduce the incentive of new investment. There is no other way out and we have to repair the damage done by a war fiscal policy which declined a sales tax and similiar measures of properly absorbing the tremendous increase in the purchasing capacities of the bulk of the American population. People had money to buy war Bonds, but the Treasury was reluctant to extract an adequate amount in mass taxes, although the amount of retail sales rose enormously in comparison with the pre-war level (reaching a total of about $261 billions in 1942-45 in comparison with $164

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*The ways and means of really democratizing the public debt were described in my article: "Democratizing Public Debt" in "Trusts and Estates", March 1943.

Favors British Loan

John L. Rowe, of Los Angeles, in Letter to Rep. Anderson, Takes Issue With Mr. Chamberlain, Who Wrote on Identical Subject. Says We Should Have No Fear of Competition of British Socialism and for Our Own Welfare, Should Make Generous Loans to War Allies. Holds if Dollar Wealth Is Inflated We Deflate the Relative Value of Debts, and Predicts That Because War Debts Were Created Out of Nothing, They Are Mere Hallucinations, and Must Be Paid With Something Equally Unreal. Warns Against Erecting Tariff Barriers Such as Hawley-Smoot Legislation.

The "Chronicle" has received a copy of a letter of John L. Rowe, of Los Angeles, Cal. addressed to Congressman J. Z. Anderson (R., Cal) in reply to a similar letter of William Chamberlain of Saratoga, Cal. which was published in our issue of Jan. 24, (Vol. 163, p. 371) The text of Mr. Rowe's letter follows:

John L. Rowe

Most everyone professes to love and admire the British, but for various reasons, they oppose the $3,750,000,000 line of credit which President Truman has emphatically endorsed. The Commercial and Financial Chronicle of January 24th carries the controversial views of Mr. William Chamberlain, who expresses violent opposition to this loan. A summation of Mr. Chamberlain's views would cover the following points:

1. The advance to the British is not a loan, but a gift for political purposes.
2. As a nation, we have emerged from World War II essentially weakened in terms of material resources.
3. That the Federal paper which our Nationals hold is not a thing of substance and intrinsic value.
4. That inflation is upon us and the loan to Britain only adds new fuel to a dangerous flame.
5. That price control is but a futile attack against the virus

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The Credit to Britain And World Trade

By HON. JAMES F. BYRNES*
Secretary of State

Secretary Byrnes Endorses the Proposed Loan to Great Britain as Indispensable to Our Economic Alliance With Her, as Well as to an Expanding World Economy. He Stresses the Advantage to Us in Terminating the Sterling and Empire Preference Pools. Although Citing Britain's Economic Plight, He Decries the Talk of Eventual Default—Holding That the Concurrent Removal of Trade Barriers Will Insure British Solvency. Denies That Loan Would Set Precedent, Declaring That Other Countries Can Borrow Through Our Government Lending Agencies. Also Combats the Argument That the Credit Would Contribute to Inflation Here.

The newspapers and the radio broadcasts have been filled with accounts of the disputes which have been aired these past weeks in the Security Council. Iran and Greece have been the subjects of direct and frank debate, particularly between the representative of the Soviet Union and the representative of Great Britain. I cannot feel that the open discussion of these disagreements is cause for alarm. Quite the contrary. Open discussion has not prevented agreement with respect to the disputes over Iran and Greece.

James F. Byrnes

Yet the public expression of these divergent viewpoints reminds us of the difficulties which stand in the way of wholehearted international cooperation. We may wish that these difficulties did not exist, but we will be ill-advised to ignore their stubborn presence.

I wish to discuss one of the most important of these difficulties and about our plan for helping to remove it. The problem I have in mind is the economic and financial dilemma into which the

*An address by Mr. Byrnes before the Foreign Policy Association, New York City, Feb. 11, 1946.

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Financial Reconstruction On the Continent

By WILLY DREYFUS

Swiss Banker Declares That Elimination of the Acute Shortages Caused by the War Must Precede Any Definite Financial Reconstruction in Europe. Close Economic Cooperation Between the Continental Countries Depends on a Uniform and Unalterable Relation of Their Currencies to Gold. France, After Clarification of Her Domestic Politics, Is the Country Destined to Take Over Europe's Financial Leadership.

When one tries to foresee future developments one is inclined to make comparisons with the past. This is also true in the political and economic spheres. But with what past upheaval can one compare the war events since 1940 and learn something of value? In the century that preceded World War I there were only relatively short and unimportant wars. Except in the Franco-German war of 1870-1871 the military issue was decided without the mobilization of great armies. The major part of the military equipment was prepared before the outbreak of war and, no industrial conversion was necessary during it. The financial burdens could therefore be borne without any great convulsions in national and international economy. The War of 1870-71 is a typical example. It lasted only six months. France, having been defeated, had to pay a reparation of 5,000,000,000 gold francs besides its own war expenditure. It was able to regain its financial equilibrium within a few years without altering the parity of its currency or the nominal amount of its national indebtedness.

Willy Dreyfus

Incomparably graver were the difficulties England had to face at the beginning of the Nineteenth Century after the Napoleonic Wars. Great Britain owes the fact that it finally overcame them

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Confusion Worse Confused

Propriety of Charges Based on Special Services, Posed. Definition of "Broker" Under the Securities Act Considered. Multiple and Conflicting Opinions Referred to. SEC Urged to Make a Statement to Settle the Unrest.

We quote from a letter recently received, in which the dealer asks that his name be withheld:

"We have wondered if an important point has not been missed in various discussions of the 'Oxford Case'. Please note that the quotation from Section 3 (a) (4) defines a broker as 'any person engaged in the business of effecting transactions in securities for the account of others . . .' Our small firm specializes in exhaustive studies of particular situations to such an extent that we honestly believe we know as much, or more, about some particular situation than does any one else.

"For example, last year one of our partners studied the reports of a particular railroad; he then interviewed at length the top officials of that road; then a trip was made over the lines, shippers were interviewed as

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The Good and the Bad in the Pending Case Anti-Strike Bill

By THEODORE W. KHEEL
Former Executive Director and Public Member, National War Labor Board

Former Labor Official Analyzes the Provisions of the Case Bill Dealing With the Settlement of Labor Disputes. Mr. Kheel Contends That the Bill Properly Stresses Mediation Instead of Fact-Finding, and Creates a Tripartite Board Which Is Preferable to an All-Public Board. He Indicates Further That Many of the Bill's Provisions Are Unworkable and Confusing, and Suggests That the Entire Subject Be More Carefully Studied Prior to Legislating.

For several months now, both Houses of Congress have been toying anew with legislation on labor. It began this time when the President sent his "fact-finding" proposal to Congress in November of last year. He asked for action by Christmas.

Theodore W. Kheel

Congress was somewhat less than responsive to the President's request—and in my judgment, that was all to the good. Although it may be difficult to imagine, the fact is that our already troubled labor situation could grow worse through ill-considered, speedily passed legislation. Ira Mosher, President of the National Association of Manufacturers, recognized this the other day when he said, in submitting to Congress an elaborate plan for legislation, that he did not favor "hasty" action by Congress.

The House Labor Committee held hearings for several weeks on the President's proposal and then submitted a watered-down, innocuous bill. The House cast this aside and went to work on the Case bill which had not been considered by any Committee of Congress. After three days of debate on this bill, which got amended in a variety of ways on the floor, the House passed it by a vote of 258 to 155.

As if in apology for its undue haste, the House wrote into the bill a provision that the Labor-Management Mediation Board, which it would create, should "make a broad and comprehensive study of the field of labor-management relations from the viewpoint of both labor, industry, and the public to determine what adjustments are necessary to promote continuity and regularity of employment, industrial peace, and the uninterrupted production and distribution of goods and services for commerce".

The theory seems to be this: first you legislate, then you investigate to find out what legislation is necessary.

For better or worse, one house of Congress has now passed this bill, so let's take a look at what it provides.

There are really two parts to this bill. The first deals with the settlement of labor disputes, the problem that prompted the Presi-

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The "Freezing" Cure

By DR. MELCHIOR PALYI

Dr. Palyi Analyzes the Scheme of "Managing the National Debt" by "Freezing" Bank Portfolios as Proposed by Dr. Leland and Prof. L. H. Seltzer and Attacks the Plan as Ineffective in Keeping Interest Rates Low and in Avoiding Inflation. Says, to Be Workable, It Would Mean an All-Round Freezing of All Deposits and Savings, and Would Lead to a Black Market in Credit. Sees a Pattern of Freezing in British System of Forced Lending of Bank Balances to the Government Which Culminated in Nationalization of Bank of England and British Government Control of Investments. Concludes There Is No Way to Control Velocity of Monetary Circulation or of Stopping Monetary Inflation Caused by Government Deficits.

To live with a debt of $300 billions, overwhelmingly short-term and constantly growing, is as safe for a nation as it is for a family to keep a rapidly maturing tiger as a pet in the back yard. Even the official "brain-trusters" begin to sense that the problem cannot be hushed up much longer.

Dr. Melchior Palyi

Not that they are worried about the size of the debt *per se*—by no means. Since the liberalism of the pseudo-liberals consists in liberally spending other people's money, they do not contemplate either the gradual reduction of the debt or even a true balancing of the budget. But they start to realize that something more is needed than just printing certificates. That is what they mean by "managing the debt": to keep the house of paper cards from toppling over, and keep it expanding, too.

The problem of the national debt arises as a conflict between soft wishes and hard facts. The wishful objectives of the New Deal financial policy may be summed up as follows:

1. Debt redemption is neither expected nor wanted. That would be deflationary, and deflation is the devil to be exorcised. On the contrary, the **continuation of deficit-financing** is the first objective, at least for depressions which are, of course, a matter of arbitrary definition. We may be in "depression" once and forever, short of a forced full employment (which would necessitate deficits, too, and bigger ones at that).

2. **Low and lower interest rates** are a political necessity because public sentiment would not tolerate a continuously growing burden of interest charges. Also, they are imperative because of the fact that some 60% of all bank deposits and 45% of life insurance assets consist of bonds, the depreciation of which would ruin the institutions. And Cheap Money is part and parcel of the wealth redistribution ideology which is particularly hostile to the income of "rentiers," bankers, and similar undesirable people.

3. Lastly prices may rise slowly and may stay high, but **no run-away situation should develop.**

But these objectives are incompatible with one another. How can the interest rate be reduced, or even kept low, if more and more debt-certificates should be issued? What if an industrial boom will raise the market rates and thereby induce banks and individuals to refrain from buying more bonds, to say nothing of liquidating them? Should the Federal Reserve be called upon to support the bond market by intensified money printing, and if so, what would happen to commodity prices? In short, the choice is between several "evils," every one of which would wreck the New Deal: stop the deficit (ending the socialistic policies which it finances); let the interest rates rise so as to make the bonds attractive to the public, but at the price of creating a banking crisis; or support old and new deficits by the printing press, and take a chance on a run-away inflation.

Freezing Bank Portfolios

The New Dealish solution of the dilemma consists in postponing the evil day by **freezing the bond portfolios of the banks.** This is the gist of the proposal announced lately by Professor S. Leland, Chairman of the Chicago Reserve Bank, a proposal originally worked out, it appears, by an economist attached to the Reserve Board (Professor L. H. Seltzer).

The reason why the program of freezing bank portfolios, or a large portion of them, in very low interesting-bearing, non-maturing bonds—in a fixed proportion to the volume of deposits—arouses wide interest is not because of the

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Balance the Budget or Bust

By MURRAY SHIELDS*
Vice-President and Economist, Bank of the Manhattan Co.

Prominent Bank Economist States That the Budget Must Be Balanced Because (1) the Debt Is Too Large; (2) Financial Institutions Depend on Government Credit; (3) It Is Necessary Insurance Against Inflation; and (4) It Is Needed to Give the Federal Reserve Freedom to Use Its Powers. Mr. Shields Urges Debt Reduction As Indispensable to the Expansion of Private Enterprise, and for the Accumulation of Reserves of Borrowing Power for Future Emergencies. Holding That A Vigorous Retrenchment in Annual Expenditures Is "The Categorical Imperative of Our Time," He Demonstrates How They Can Be Reduced to $15 Billion.

Few people realize how much our economic destiny now depends on that obvious, old-fashioned, common-sense action; and certainly with respect to the problem of financing post-war prosperity that is the key-piece in the whole picture.

Murray Shields

The experience of the past two decades provides incontrovertible evidence that we cannot have durable prosperity by tinkering with gold, by central bank manipulation, by erecting grandiose corporations for doling out credit, by forcing interest rates arbitrarily low, by colossal investment in public works, or by grants, doles or subsidies. We can be positive of this because it is clear from our "bold experiments" of the past 15 years that prosperity cannot be had by economic sleight-of-hand. The common denominator of these schemes, which were sold to the people as panaceas for the economic ills of the time, was spending by the Government of more funds than it collected in taxes.

We should know, however, that *without budgetary balance we cannot revitalize the basic economic incentives which activate the expansionary tendencies inherent in the private enterprise system or maintain a high level of production once it is reached.* Budget balancing is not, I hasten to point out, the only economic necessity if we are to have prosperity, but it is clearly the indispensable element in any program designed to produce that condition. I submit that budgetary balance has now become imperative for several reasons.

Budgetary Balance Necessary Because Debt Is Already Too Large

First, our national debt is already too large. By the end of 1946 the total of U. S. Government securities outstanding will be close to the stratospheric figure of $275 billions. At such a level our national debt is high by whatever statistical standards one applies to it. The fact that *our debt has increased about $225 billions, or 450%, in the past five years* ought to tell us that we have had enough of that for a while. *A few years ago our Federal debt was about half the national income and a fraction of the roughly estimated national wealth. Today it is close to two times the national income and approximately equal to the national wealth.* Our future has been mortgaged and the mortgage is high as compared not only with our income and our wealth, but with the taxpaying capacity of the people.

But this not all, for the Federal Government has assumed substantial commitments which are not listed on the liability side of its balance sheet. There is the Social Security System, which is set up on an actuarial basis such as to bring it within a few years to a point where Social Security tax receipts will not provide adequate funds to meet benefit disbursements. There are the various Government corporations which may at some time need more money to meet their contingent, if remote, liabilities. Among these are the Federal Housing Administration, which is obligated to issue billions of dollars of Government-guaranteed debentures if it becomes necessary to repay holders of insured mortgages; the Federal Deposit Insurance Corporation, which has insured over $100 billions of bank deposits; and the Federal Savings and Loan Insurance Corporation, which has similar obligations to its members. There are also the obligations to provide additional capital above the initial contribution to the International Monetary Fund and the International Bank for Reconstruction and Development, to extend direct loans to foreign governments for economic rehabilitation, and to make loans through the Export-Import Bank. These obligations, some absolute and some contingent, run into many tens of billions of dollars, and they, together with the present size of the debt, make it obligatory that our Government get its fiscal house in order without further delay.

It is fashionable in some quarters to minimize the importance of so large a rise in the national debt and it has been said that we need not worry about the Federal debt because the State, municipal and private debts have declined. The fact of the matter is that, while the Federal debt has been increased $250 billions since 1929, all other debt is down only $20 billions. There is also a disposition to argue *that the size of the debt makes no difference because we owe it to ourselves.* This is sheer nonsense. To be sure, it is true for the community as a whole that we owe the debt to ourselves and it is as true of other debt as it is of the Government debt. But it is meaningless to discuss the debt solely in terms of the community as a whole. We know that a debtor can sweat and squirm and get into all sorts of difficulties in trying to pay off his obligation even though his debt represents an asset of someone else in the community. The

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*An address by Mr. Shields before The Petroleum Club, Dallas, Texas, Feb. 11, 1946.

The Outlook for Production And Prices

By D. W. MICHENER*

Associate Director of Research, Chase National Bank

Research Analyst Forecasts That Production Volume in Current Year Will Be Considerably Below the Wartime Peak, and That Decline in Output Was Most Pronounced in History. Holds Indications Are That Workers' Efficiency Has Declined and That Manpower Available for Production Is Only Moderately Above Prewar Era. Foresees Price Rise in 1946 of About 10% for Consumers Goods, Due to Large Accumulation of Liquid Assets, a More Rapid Turnover of These Assets, and Restricted Output of Goods. Holds Inflation Can Be Avoided by Reduction of Bank Deposits, Reduction in Banks' Holdings of Government Bonds, Higher Taxes and Paying Off Greater Proportion of Government Debt.

Six postwar months are already behind us. However, it is still difficult to get a clear view of the success which we have had thus far in readjusting our economy to peacetime conditions and of what the immediate future is going to be like. If we look at our industrial production record (see Chart I) it is obvious that the most spectacular achievement of the past 20 years was the volume of industrial production achieved during the war. The increase in the index of industrial output from 1937 to 1943, as estimated by the Federal Reserve Board, was approximately 100%—and 1937, of course, was a good year. In fact, the peak of industrial output during 1937 was higher than that achieved during the boom of 1929.

D. W. Michener

In keeping with the unprecedented rise in physical volume of industrial production as we went into the war, the decline during 1945 has been the most pronounced in our history. The year ended with the Board index at about 164, according to present estimates, a level considerably below that at the time of the Pearl Harbor attack. Strikes during the past month pulled the index down still further. January was perhaps near the 150 level.

Now the question is what of the future. Do we have "what it takes" to produce goods at a rate comparable with the wartime peak of industrial output or will we have to be satisfied with accomplishments of much less magnitude?

Plant and Equipment

In attempting to answer this question, I shall direct your attention first to the extent of the changes in plant and equipment during the war. Statistics now made available by Government

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*An address by Mr. Michener before the Federal Wholesale Druggists' Association, New York City, Feb. 6, 1946.

The Obligation of the Republican Party

By HERBERT HOOVER*

Former President of the United States

Asserting That Both Political Parties "Have Straddled," Mr. Hoover Contends That the Republican Party Needs a Fundamental and Constructive Philosophy of Government Far Deeper Than Platforms Designed to Appease Every Pressure Group. Urges Fidelity to the Constitution With Its Bill of Unalienable Rights. Attacks Some CIO Unions as Demanding Special Privileges and Vicious Interference With Politics and Upholds Government Regulation but not Operation of Economic Life. Says Man Can Accomplish More by Cooperation Outside Government Than by Government Coercion and Best Test of Government Is "Does It Stimulate Proper Initiative in Men?" Holds Freedom Throughout World Has Shrunk and Calls for Steadfastness to Principles in Present Crisis.

Ninety years ago the great issue before the American people was free men. The Whig Party refused to accept that issue. Even worse, it sought compromises, middle courses and evasions. The young Republican Party, under Abraham Lincoln, met the issue squarely, and its strength and vitality grew from its brave and uncompromising struggle in behalf of freedom and dignity for all men. The Whig Party died.

Herbert Hoover

Today the great issue before the American people is free men against the tide of Statism which is sweeping three-quarters of the world—whether it be called Communism, Fascism, Socialism or the disguised American mixture of Fascism and Socialism called "Managed Economy" now being transformed into a further ambiguity, the "Welfare State." This growth of Statism has been nourished by the confusion of a great war. And it can grow still more by continued excessive taxation and by creeping inflation.

Once more, we face a crisis in free men. As in Lincoln's time there are other issues, but again this issue dominates and underlies all others.

The question now is, will the Republican Party take this issue or will it seek to straddle, as did the Whigs 90 years ago?

Two-party government is essential to the democratic process. But the high purpose of two-party government is not to gain public office. The purpose is to give the people an opportunity to determine fundamental issues at the ballot box rather than elsewhere.

Both Parties Have Straddled

The American people do not have that opportunity offered to them by the political parties today. Both parties have straddled. What the Republican Party needs, what the nation needs from the Republican Party is a fundamental and constructive philosophy of government with the principles which flow from it. And that philosophy must reach far deeper than the froth of slogans or platform planks designed to appease every pressure group. This fundamental philosophy cannot be defined in the old terms of Conservative, Liberal, or Progressive. Lenin's direction to his Communist supporters was every-

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*Address by Mr. Hoover before National Republican Club Lincoln Dinner, New York City, Feb. 12, 1946.

Our Int'l Policies

By ALF M. LANDON*

Former Governor of Kansas

Former Presidential Candidate Criticizes the Administration's Foreign Policy as Inconsistent, Floundering and Deceptive. Says We Are Breaking Away From Principles of the San Francisco Conference by Appeasing Russia and Denouncing Argentina, and Are Thus Weakening Confidence in Our Government Both at Home and Abroad. Urges Keeping Great Britain Strong, in Order to Attain World Equilibrium, and Changing Our "Morgenthau" Policy Toward Germany. Accuses Secretary Byrnes and Truman Administration of Compromising at Our Expense and Calls Upon Congress to Define Our Foreign Policy.

Alf M. Landon

Both the momentous political and military policies involved in our foreign relations demand the most thorough and searching debate and discussion so that the American people may know exactly what they are doing and why.

Our democracy has survived and fostered a great nation because of the ability of the people to grasp issues and dominate their solution.

The double talk and conflicting actions which the administration has given the American people, has left them in doubt and confusion. This has had a disastrous effect both at home and in the world. "Bread of deceit is sweet to man, but afterwards his mouth shall be filled with gravel."

In the British financial proposal, for the first time a fundamental question of international policy is placed squarely before the entire Congress for discussion and debate.

I urge the Congress not to decide the British deal on snap judgment—the way the administration has been making its deci-

*An address by Mr. Landon before the Women's Republican Club, Kansas City, January 28, 1946.

(Continued on page 873)

"High-Level" Employment—Now and Forever

By HON. ROBERT A. TAFT*
U. S. Senator from Ohio

Senator Taft Attacks the President's Full Employment Bill as "a Spending Measure" and Contends That It, Like Similar Prewar "New Deal" Measures, Will Not Solve Problem of Unemployment. Says Problem Is Not to Create but to Maintain a High Level of Employment, and That It Can Be Solved Only by Sound Government Policy in Finances and Economic Measures. Holds Administration Has Adopted an Inflationary Wage Policy, Combined With Inflationary Spending, and Criticizes the Heavy Government Lending as Having the Same Dangerous Inflationary Effects as Spending. Urges Balancing of Budget, High Production, and a Check on Spending and Lending as Insurance of Permanent High-Level Employment.

It was a great pleasure to me to accept the courteous invitation of your Board, particularly when it was explained to me that you did not demand an address on housing. During the Christmas holidays I had to debate several of your friends in real estate organizations, defending my position that a subsidized low - rent housing program of reasonable size was a necessary part of any attempt to deal with the whole housing situation. I am glad to find a group of real estate men whose minds are at least open on the subject and talk to them on some other subject.

Robert A. Taft

A housing program must be part of any general plan to improve social conditions, eliminate hardship and poverty for the lowest income groups and restore something like equality of opportunity to all the children who may be born into America as we find it today. We have in this country the highest average standard of living in the world. We are interested in maintaining it and in raising by Government aid and floors, if necessary, the standards of those who, for one reason or another, fall behind the procession in a competitive economy.

But such a social welfare program is only made possible by the prosperity of the rest of the people, by the sound and continuous economic progress in which our people have set an example to the world. We have accomplished our amazing result without very much thought or introspection. It has risen out of the freedom of our people and the energy and initiative generated by freedom. But today we have reached an era of planning and introspection, whether we like it or not. We want to find out how the wheels go round and how we can make them go around faster. We want to tinker with the ma-

(Continued on page 857)

*An address by Senator Taft at the Annual Banquet of the Real Estate Board of New York, Feb. 2, 1946.

Business and Politics

By JOHN W. HANES*
Former Under-Secretary of the Treasury

Mr. Hanes Contends That Through Pressure Group Tactics, Propaganda and Political Advertisement, the Leftist Organizations, Particularly the CIO, Have Succeeded in Dominating the Administration's Policies and Have Been Undermining Private Enterprise and Creating a Privileged Class. Cites Reports of CIO as Evidence That They Favor Administration's Bill in Congress.

John W. Hanes

The subject of my discussion here today is "Business and Politics."

You will remember a few years back we had a popular slogan, "More Business in Government, less Government in Business." The order of today seems to be just the opposite. Whether we like it or not, business is in Politics—and we are there to stay.

Labor has announced its intention of capturing the local and state governments, as well as the Congress of the United States and the Federal Government. The question is, therefore, "Will the United States be run for the benefit of a few privileged groups, or will we accept again the basic philosophy of Thomas Jefferson?"

*An address by Mr. Hanes before the Pittsburgh Advertising Club Jan. 22, 1946.

(Continued on page 872)

Rejoins A. G. Edwards Co.
(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, MO.—**Ben B. Soffer** has rejoined **A. G. Edwards & Sons**, 409 North Eighth Street, after serving in the armed forces.

Joins Slayton & Co.
(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, MO. — **Glenn B. Adams** is with **Slayton & Company, Inc.**, 111 North Fourth Street. He was previously with the U. S. Army.

Eddy With Merrill Lynch

Merrill Lynch, Pierce, Fenner & Beane, 70 Fine Street, New York City, members of the New York Stock Exchange, have added Charles F. Eddy to their staff.

Slate Presented to Cashiers Association

The nominating committee of The Cashiers Association of Wall Street, Inc., has presented the following slate for officers and directors for 1946:

Joseph F. Hughes, President; Joseph A. Costa, 1st Vice President; Daniel Breitbart, 2nd Vice President; Joseph T. Clark, Secretary; Robert J. Humphrey, Jr., Treasurer, and, Marvin W. Waldbillig, F. W. Q. Birtwell, Godfrey H. Maurer, Ambrose J. Verlin, William S. Vanek, M. Leslie Denning, and Thomas B. MacDonald as directors.

The annual dinner of the Association will be held on Feb. 21 at the Hotel Henry Hudson.

du Pont Homsey Wire to New York

du Pont, Homsey Co., 31 Milk St., Boston, Mass., announce the installation of a direct private open-end wire to New York—Canal 6-8100.

Offer Silver Creek Precision Common

An issue of 82,000 shares of common stock, par 40 cents per share, of Silver Creek Precision Corp. was offered Feb. 8 at $3.25 per share by J. F. Reilly & Co., Inc., New York. Of the shares offered 72,000 are for the account of the company and the proceeds will be added to working capital.

Business Man's Bookshelf

This Is The Road To Stock Market Success—George Seamans—a new edition revised and rewritten to take into full account the present market position right up to the time of going to press—Seamans-Blake, Inc., 841 West Washington Blvd., Chicago 7, Ill.—$3.00, with privilege of returning for refund within fifteen days.

Now With G. H. Walker

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, MO.—**Edmunds G. Whitehead** has become associated with **G. H. Walker & Co.**, 503 Locust Street, after serving in the U. S. Navy.

Public Utility Securities

The Utilities—Pro and Con

At a recent luncheon forum of the New York Society of Security Analysts there was a general discussion regarding the current market outlook for public utility stocks. Among the favorable points discussed were the following (with some added material):

(1) Utility stocks are not selling at unreasonable yields as compared with industrial issues (they currently average about 4¼% compared with 3½% for good industrials). One analyst thought that they might in future be compared to "guaranteed rails" because of their long dividend records, and the fact that they are "guaranteed" a fair return on investment. This point of view would probably have been considered extreme by the majority, however.

(2) The electric and gas companies have been "plowing back" earnings into improvements during the war, and electric capacity has been increased about 30%. Companies like Public Service of New Jersey have very heavy building budgets for 1946-47. New equipment will, of course, be more efficient.

(3) There will be a substantial increase in use of residential current as soon as electric appliances are freely available and the building boom gets under way. If rates are reduced this will stimulate the use of appliances.

(4) Some of the State Commissions, notably Pennsylvania, still take an old-fashioned view of rate regulation and have not adopted the "New Deal" methods of enforcing original cost as a rate base, etc. Other states such as Texas still allow a liberal rate of return. Many Commissions may "go slow" in ordering rate cuts because they realize that costs are increasing.

(5) Some of the utilities will enjoy very substantial earnings gains this year due to tax savings (approximately 5% of federal income taxes and 55% of excess profits taxes).

(6) Despite loss of munitions business, strikes, etc., total sales of electric current are running only about 12% under 1945, and the Rocky Mountain area is about 3% over last year (week ended Jan. 26). For the 12 months ended Nov. 30th net income of all Class A and B electric utilities showed a gain of 3.6% although for the month of November there was a decline of about the same proportion.

(7) A great deal of house-cleaning has occurred in the utility accounts, and plant accounts of many companies have been written down sharply, while others are amortizing plant write-offs. Such amortizations if treated as an expense may be considered "hidden earnings."

(8) Depreciation charges have been liberal in recent years and depreciation reserves have been rapidly increasing. When reserves become equal to estimated "accrued straightline depreciation," current charges may be reduced, which would improve stated earnings.

Some unfavorable factors are as follows:

(1) A number of States, notably Indiana, have indicated that they may try to take away from the utilities and give to residential and other consumers the savings which the utilities may obtain by the new tax law. However, the move has not yet gained much headway and the utilities will doubtless fight any "automatic" cuts, which would depart from the usual determination of rates on the basis of "fair return on fair value."

(2) Utility markets in 1945-46 have been somewhat reminiscent of 1929, and some low-priced holding company stocks are selling at prices which apparently can't be justified statistically. In other cases present prices of holding company securities reflect a "gamble" that pending recapitalization plans will be amended by the SEC or the courts, to permit retirements of senior securities by cash payment.

(3) The "fair rate of return" used to be around 6%, but now interest rates are at much lower levels and a huge amount of bonds and preferred stock refunding has been accomplished, with more in prospect. Hence State Commissions may revise downward the "fair rate of return." Thus the utilities might lose a substantial part of the refunding benefits.

(4) Labor and fuel costs will doubtless show a rising trend in

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The Course of Our Foreign Policy

By GEN. PATRICK J. HURLEY*
Former Ambassador to China

General Hurley, Reiterating His Charge That There Are Conflicting Elements in the State Department That Support Communism and Colonial Imperialism, Asserts That the Principles of the Atlantic Charter Have Been Abandoned and That at Yalta and at San Francisco We Have Departed From the Fundamentals of Our Foreign Policy and Appear to Be Entering a Kind of Imperialism. Cautions That We May Be Spending Ourselves Into Ruin in Pouring Out Billions to Defeat America Economically, and Urges That U. S. Place Its Prestige Behind the United Nations Organization by Supporting Equal Rights of All Nations to Choose Their Own Form of Government.

In statements issued at the time of my resignation as Ambassador to China I raised certain fundamental issues—among them:

Patrick J. Hurley

1. There is an unjustified discrepancy between the announced principles of our foreign policy and international objectives and the implementation of that policy by our State Department, an unjustified discrepancy between promises and performance.

2. There is no place in a democracy for secret diplomacy. The people are entitled to the basic facts regarding our foreign relations. The people have not been given these facts.

3. We have fought two wasted wars for democracy and won both of them. Our allies in both wars said they agreed to our fundamental objectives but we have not yet established the principles for which we said we were fighting.

4. Certain career men in the State Department, not a majority of them, have opposed the American foreign policy and have passed information to organizations whose purpose it was to defeat the policy. The American people have not been given as much information pertaining to our foreign policy as has been "leaked" to foreign organizations which oppose the policy.

5. In our State Department there is an element that supports Communism, another that supports colonial imperialism. We are at present being sucked into a power bloc on the side of colonial imperialism against Russian imperialism. America should oppose both Russian and colonial imperialism and support the principles of democracy and free enterprise.

I wish to assure the members of the Chamber of Commerce that my discussion of the foreign policy of the United States is non-partisan. The foreign policy of the nation transcends partisan politics. Our foreign policy should not be the Democratic Party policy or the Republican Party policy. It should be the American policy. The moral support, the productive strength and the armed force of the United States should not be allied with any predatory ideology. Our leaders told the men who fought that we were

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*An address by General Hurley before the St. Louis Chamber of Commerce, St. Louis, Mo., Feb. 7, 1946.

The Menace of Inflation

By IVAN WRIGHT

Dr. Wright Points Out That the Real Causes of Inflation Are the Surpluses of Money and Credit at Low Interest Rates and He Contends That These Causes Cannot Be Controlled by Price Regulations. Advocates as Remedies, the Ending of Deficit Financing, Reducing Government Expenditure and Taxing Away Surplus Money and Credit. Holds No Countries Have Succeeded in Stabilizing Inflation and That Some of Our Competitors in Economic Field Have Been More Successful in Restraining Inflation Than We Have.

No one familiar with the destructive effects of inflation could doubt that it will have all the bad results claimed by officials whose business it is to combat inflation. Inflation, however, cannot be restrained by price regulation. The function of price is to regulate supply and demand. When prices are held down and the supply is scarce, black markets are the result. Black markets are not confined to meat and groceries, but we can have black markets in hotel rooms, apartments, building lots, motor cars and even reservations for airline transportation. At present we have the conditions for black markets of many varieties in the United States. These will result from the pretense of fighting inflation without doing anything about the real causes of inflation.

Dr. Ivan Wright

The Real Causes of Inflation

The real causes of inflation are the surpluses of money and credit at low interest rates. These surpluses of money and credit have come about as a result of the deficit spending prior to and during the war. The public buying power greatly exceeds the supply of goods. But it is very doubtful if our country could create a supply of goods to buy which would absorb this vast surplus of buying power, without creating maladjustments in production which could not be successfully marketed or distributed. Such a condition will bring about rising prices, regardless of price-ceilings. This is not the only condition forcing inflation upon us.

In all the discussions about holding down prices and the benefits to be obtained from low prices with large production and large purchasing power available, no one in a responsible position in the Government has come out and recommended low costs, and offered any solution for maintaining low costs, to balance low prices. The only suggestion made, has been that of holding down prices and reducing unit costs with increased volume of production. Much of production is technical and that volume is definitely limited by the tools to work with and the skill and capacity of the workers. Moreover, in those few lines where production could be greatly increased with little addition to the supply of tools and skills, such as agriculture, the long term supply promises to be entirely too large without any increase and farmers are promised a subsidy, to justify their present costs.

Inflation can be stopped by ending deficit finance, reducing Government expenditures to the min-

(Continued on page 864)

Chicago Brevities

Negotiations between striking AFL and CIO unions and Chicago's big four meat packers are expected to resume upon announcement of a government wage-price policy, following the report of a government fact-finding board, recommending a 16-cent an hour general wage increase. Meantime, neither unions or management would comment on findings of the panel.

The recommendations, which apply specifically to Armour & Co., Cudahy Packing Co., Swift & Co., and Wilson & Co., called for the companies to absorb five cents of the increase themselves and for the Government to grant price or subsidy relief sufficient to cover the cost of putting the other 11 cents of the wage increase into effect.

The 16-cent wage boost would increase the total costs for the industry by 2% over present levels, the panel found, and said that the five cents which the packers would be called upon to absorb represented a little more than 0.5% of the industry's "sales dollar," on which costs are figured.

Anticipating continued liquidation of the high cattle population and a larger than normal spring and summer hog run, packer spokesmen earlier at Chicago hearings of the fact-finding panel predicted a 5 to 10% increase for 1946 in meat production in Federally inspected plants over last year.

Packinghouse workers returned to work Jan. 26, following government seizure of the meat packing plants ten days after a walkout.

* * *

Stockholders of Borg-Warner will vote on a proposal to increase the corporation's authorized capitalization at a special meeting April 1.

The proposal calls for the creation of 250,000 shares of non-convertible $100 par cumulative preferred stock of which 200,000 shares would be offered to the public. Funds from the sale of the stock, totaling approximately $20,000,000, would be used to modernize and expand the corporation's present plants and manufacturing facilities, C. S. Davis, President, stated.

"The move by the corporation is the result of a long and intensive study, initiated in 1943, of postwar opportunities and needs," he said.

Already under construction is a new disc plant at West Pullman, which will increase production capacity about 50% late this year. A new rolling mill which will treble the factory's steel output early in 1947.

The company, which manufactures a diversified line of products, including farm machinery, is at present also expanding its Calumet, Ill., steel plant for production of steel fence posts for the farm.

* * *

Chicago Corporation, which with Seas Shipping Co. (Robbin Line), New York, made a joint bid for purchase of the $7,500,000 American President Lines, withdrew its offer, it was learned early last week.

Richard Wagner, Chicago Corporation's President, stated that "circumstances" of the Dollar appeal had prompted withdrawal of the offer.

The Dollar steamship interests have brought suit against the United States Maritime Commission, which acquired the President Lines from the Dollar interests in 1938, claiming that they merely deposited certain securities with the Commission as collateral for debt. Both Department of Justice and Commission attorneys claim the stock was turned over to the Commission in default. A decision in the case, now before the U. S. Court of Appeals in Washington, is expected momentarily. Regardless of the court's decision, the case is expected to go to the Supreme Court.

* * *

Stone & Webster and Blodget Inc., securities firm, has changed its name to Stone & Webster Securities Corp. The name was decided upon, Robert H. Van Deusen, President, stated, to more accurately reflect the company's relationship with Stone & Webster, Inc., of which it is a subsidiary.

* * *

Chicago's huge Dodge plant, operated during the war by Chrysler, will be taken over by Tucker Corporation if present negotiations, reported to be progressing, are consummated in the lease, if not sale, of the property to the new corporation.

The corporation was formed by Preston Tucker, President, Ypsilanti Machine and Tool Co., Ypsilanti, Mich., to manufacture a new type of automobile to sell between $1,000 and $1,300.

Officers named by Mr. Tucker are Raymond Rausch, former Ford Co. executive, Vice-President; Joseph D. Burke, veteran automobile man formerly associated with Chrysler, Hudson and Packard, Vice-President in charge of sales; and George W. Lawson, former General Motors official, in charge of style and colors.

* * *

Trustees of the Chicago, North Shore & Milwaukee Railroad Co. (North Shore Line) have filed a proposed plan for reorganization of the road with Federal Judge Igoe, providing for a new corporation with capitalization of 500,000 shares of no par common stock.

Under the plan, all the 500,000 shares and $3,500,000 in cash would be distributed to holders of mortgage lien bonds of the present company. Present stockholders and unsecured creditors would be excluded from participation.

The line's property value for purposes of reorganization was less than its $30,000,000 of mortgage indebtedness, with interest accrued as of last Dec. 31, the trustees contended, total mortgage indebtedness with accrued and unpaid interest as of that date amounting to $30,609,582. Under U. S. Supreme Court decisions therefore, unsecured creditors and stockholders, representing holdings with a nominal value of $28,785,961, are excluded from participating in the reorganization.

The proposal calls for the new company to receive the road's property free of mortgage indebtedness.

J. W. Holloway With Jas H. Oliphant & Co.

CHICAGO, ILL.—John Whitcomb Holloway has become associated with Jas. H. Oliphant & Co., 209 South La Salle Street. Mr. Holloway was with the Continental-Illinois National Bank & Trust Co. from 1927 to 1942—the last five years as investment analyst in the trust department. His distinguished war record included service as counter intelligence officer with the Twelfth Air Force in Africa and Italy and he was relieved from active duty as a Major in November, 1945.

New Members Elected to Chicago Stock Exchange

CHICAGO, ILL.—Burdick Simons, President of Sidlo, Simons, Roberts & Co., of Denver, Colorado, Herman Magged and Joseph A. Kroeck, both of Chicago, were elected to membership in the Chicago Stock Exchange by the Board of Governors, it is announced.

With the election of Mr. Simons to membership, Sidlo, Simons, Roberts & Co., becomes the twenty-ninth member corporation of the Exchange and the sixth investment dealer in the City of Denver, Colorado to become a member of the Exchange.

Illinois Personnels

(Special to THE FINANCIAL CHRONICLE)

AURORA, ILL.—**William H. Flentye, Jr.** has joined the staff of **William H. Flentye & Co., Inc.,** Graham Building, after serving in the U. S. Marine Corps.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—**Jerome R. Spanier** has joined the staff of **Bennett, Spanier & Co., Inc.,** 105 South La Salle Street, after serving in the U. S. Army.

(Special to THE FINANCIAL CHRONICLE)

CHICAGA, ILL.—**William T. Dwyer** and **Paul B. Isherwood** have become connected with **Central Republic Company,** 209 South La Salle Street, after serving in the armed forces.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—**William B. Healy** is now with **Comstock & Co.,** 231 South La Salle Street. In the past he was with Alfred O'Gara & Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—**Harold J. Passaneau** is with **Smith, Barney & Co.,** 105 West Adams Street. In the past he was with Halsey, Stuart &Co., Inc. for many years.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—**Norton V. Smith, Jr.** has joined the staff of **Bache & Co.,** 135 South La Salle Street, after serving in the U. S. Navy.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—**Frank X. Duffy** has become associated with **Brailsford & Co.,** 208 South La Salle St. He was formerly with First Securities Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—**Dixon Jordan** has become connected with **Lamson Bros. & Co.,** 141 West Jackson Boulevard, after serving in the U. S. Army. Prior to military service he was with Thomson & McKinnon.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—**John P. Loye** has become affiliated with **David A. Noyes & Co.,** 208 South La Salle Street, after serving in the army. He was previously with Lamson Bros. & Co. and Daniel F. Rice & Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—**Thomas J. Barnicle** has been added to the staff of **Daniel F. Rice & Co.,** Board of Trade Building.

(Special to THE FINANCIAL CHRONICLE)

ROCKFORD, ILL.—**Erwin Smith** is now with **King & Company of Rockford,** 321 West State Street. He was formerly with Conrads & Company.

W. M. Rosenbaum Returns

W. M. Rosenbaum & Co., 285 Madison Avenue, New York City, members New York Stock Exchange, announces the return of William M. Rosenbaum from the military service to active participation in the firm.

Present Production Problems

By HENRY FORD II*
President, Ford Motor Company

Leading Automobile Executive Points Out Decline in Workers' Productivity and Asserts That Labor-Management Problem Can Be Solved Only by Both Working Harder to Produce More. Cites Increases in Ford Production Costs With Labor Costs Alone 100% Greater Than in 1941, as Problem That Must Be Solved in Face of Fixed Ceiling Prices. Says That With Suppliers of Materials Affected by Higher Costs, Ford Is Unable to Maintain Steady Output, and Mass Production Is Prevented. Asserts Ford Company Must Sell Car, Costing Above $1,000 at $728, and It Is Only Able to Bear Loss Because of Reserves to Draw Upon. Concludes "Only Road to Peace and Plenty" Is for All to Pitch in and Work, and Calls Upon Unions to Popularize More Output Among Their Members.

We at the Ford Motor Company undoubtedly face the same problems these days that face most of you who are in the manufacturing business. It therefore seemed to me that there was nothing that I could do better than to talk to you about our reactions as a company to our problems.

Henry Ford, 2nd

I use the word "reactions" because many of our problems are not solved. There is, as you very well know, a great difference between solving your problems and trying to live with them.

We see only one solution which holds the promise of being successful—but before I tell you what we think that is, I would like to review briefly the conditions we face in the automotive industry.

*An address by Mr. Ford before the Commonwealth Club in San Francisco, Feb. 8, 1946.

Ford Labor Relations

These conditions, let me say, are not all bad. We are pleased, for example, by the progress which we as a company have made in the field of labor relations—our relationship with our employees. We marked this as a No. 1 objective on our list of postwar objectives and it seems to us that we have made progress in the direction of mutual respect and understanding. Throughout this period of unrest and conflict, the negotiations between the Ford Motor Company and the United Automobile Workers have proceeded in the friendliest fashion, without recriminations or bitterness.

Furthermore, since V-J Day **there have been no strikes at the Ford Motor Company.**

I do not want you to think that our negotiations have been anything but hard, tough bargaining. But both sides have kept continually in mind that the goal was to reach an agreement. We have neither of us ever refused to meet. We have kept everlastingly at it.

Furthermore, both sides have made specific and very real efforts to achieve some of the objectives of the other side. We, for example, called the attention of Union leaders to the fact that, although we had given the Union in 1941 the security for which they asked by agreeing to the closed shop and the check-off, there had been 773 unauthorized work-stoppages in the four years since that time. We also reminded them that the productivity of employees on the job had decreased about 34% during these same four years. We said, in effect: "We gave you security, how about your giving management and the company security?"

We proposed a method achieving that end. They didn't like it. But what is significant is that the matter was not dropped. They didn't take the position that we were trying to destroy the unions. They took a try at the problem themselves and they suggested a solution which they liked better. We have not yet worked out a plan for "company security," which both sides will agree is workable, but we have agreed that such a plan will be part of the same contract that provides for a wage increase of 18 cents an hour.

I have said this before, but I would like to repeat it here: It is our feeling that the problem of labor and management getting along together can only be solved by labor and management working hard at the problem together, both of them with a real sense of responsibility to the public interest. We do not think that Government can provide the solution, because the principal thing which Government can bring to bear on the problem is the legislative club. And you cannot coerce great numbers of Americans into doing something that they think is unfair and against their best interest. We have tried that in the past and it doesn't work. It merely makes more troubles. There is a big field for sound labor legislation, but it will not be written to coerce any group.

Ford Production

While a solution of our labor relations problems is of the greatest importance, it is only one of the major problems which face the Ford Motor Company, the automotive industry, our suppliers, and perhaps all industry. Let me review briefly some of the other conditions we face.

Shortly after V-J Day we made some calculations and announced that we hoped to be able to turn out 80,000 Ford cars and trucks by Christmas. That seemed to us the best Christmas present we could deliver to the car-hungry American people.

Actually, instead of 80,000 cars and trucks, we produced 30,000. We take a good deal of satisfaction from the fact that more than half of all the cars and trucks that have been built in this country since V-J Day have been Ford

(Continued on page 867)

Carroll G. Taylor Is Now With Adams & Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill. — Carroll G. Taylor has become associated with Adams & Co., 231 South La Salle Street. He was formerly an officer of Taylor, Duryea & Co., Inc. and in the past was in charge of the Chicago office of Lobdell & Co.

James J. Schmaltz With Shearson, Hammill & Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill. — James J. Schmaltz has become associated with Shearson, Hammill & Co., 208 South La Salle Street. Mr. Schmaltz was formerly with Clement, Curtis & Co. Prior thereto he was an individual floor broker on the Chicago Stock Exchange.

Real Estate Securities

The postwar importance of the Financial District of New York has been accentuated by the fact that the American Airlines has just seen fit to open an office at 120 Broadway. According to newspaper releases, this new office is expected to handle about one-third of the transcontinental and overseas travel of the American Airlines. Until now, the ticket offices of the airlines have only been in the Midtown area of New York City.

Before the war, the financial section was the main area of all the steamship companies. It seems probable that they will see fit to again locate in this section.

The section should also benefit by the overflow from the adjacent insurance trade section which is very crowded at the present time.

Many of the buildings in the financial section of New York are financed with real estate bond issues which still appear to offer possibilities of enhancement in value because of the discount from par at which these issues are selling.

Among these are:
- 39 Broadway, (B'way Trinity Place Corp.)
- 50 Broadway
- 40 Wall Street
- Westinghouse Bldg.
- 165 Broadway
- Broadway Barclay Bldg.

The latter two issues at the moment seem to have best appeal for price appreciation.

The 165 Broadway property is a 32-story office building. The company also owns the adjoining 5-story at 99 Liberty St., and the 6-story bank building at 169-171 Broadway. All of the latter buildings except the ground floor and some 105,000 square feet of the main building (20% of its rentable area) is leased until 1949 to the Chemical Bank & Trust Co. Indications are that the Bank will retain this space after the expiration of their lease and will probably also lease some additional space in the building now occupide by the Government.

The bond issue of $7,778,000 (selling at 79%) pays 4½% interest and is secured by a first mortgage on the land and buildings at 165 Broadway and 99 Liberty St, and a mortgage subject to $1,195,000 liens on the 169-171 Broadway property. In addition to the 4½% interest, company retires bonds thru sinking fund operation ($950,000 retired since reorganization in 1939).

The Broadway Barclay Bonds are secured by a first mortgage on land and a 44 story building at 225 Broadway. Bonds currently selling at 47% par 2% fixed interest, after which, balance of earnings are split three ways: ⅓rd for additional interest, ⅓ for sinking fund and ⅓ to the ownership. Price of the bonds seems to be below other issues in the section which seems to indicate a good possibility of leverage.

Morgan Stanley Group Offers Boston & Me. Bonds

Morgan Stanley & Co. and Dick & Merle-Smith with their associates have purchased and are reoffering at 103% and interest $18,000,00, Boston and Maine RR. first mortgage 4's due July 1, 1960. Associated with the manager in the offering are Blyth & Co., Inc., Kidder, Peabody & Co., Lazard Freres & Co. and Whiting, Weeks & Stubbs. The New York Stock Exchange has approved the participation of member firms in the offering. The bonds do not constitute a new issue but were purchased from the Reconstruction Finance Corporation. The RFC is understood, through this and other transactions, to have sold all of its holdings of this issue. Simultaneously with this purchase the Boston and Maine RR. is itself purchasing approximately $2,375,000 of ahe bonds for retirement. This will reduce their first mortgage debt to $64,139,000, as against $74,000,000 at the time of the issuance of the bonds in 1940. In addition during the same period the railroad has retired nearly $20,000,000 of junior bonds.

The Boston and Maine has had satisfactory results from its recent purchase of Diesel engines for use on freight traffic. The road's computation of savings through the operation of these new Diesels would indicate an aggregate operating savings of approximately $3,600,000 per year when all have been delivered. This estimated saving nearly equals the road's fixed charges, which now aggregate about $3,860,000.

To Redeem 3⅛% and 3% Treasury Bonds

WASHINGTON, Feb. 14—The Treasury announced today that it will call redemption on June 15, the outstanding 3⅛% Treasury Bonds due June 15, 1949, and the issue of Treasury 3% Bonds due June 1948. There are approximately $818,000,000 of the 3⅛% Bonds and $1,035,000,000 of 3% issue outstanding.

E. F. Gillespie Resumes

Eugene F. Gillespie is resuming his investment business from offices at 15 Broad St., New York City, as President of E. F. Gillespie & Co., Inc. Mr. Gillespie has been serving as Colonel in the U. S. Army Air Force since 1940.

Home Mortgage Trends

By ROGER W. BABSON

Mr. Babson Calls Attention to Easier Home Mortgage Terms and Holds Now Is a Good Time to Plan a New Home, Despite High Building Costs. Warns Against Investors Tying Up Money in Long-Term Low Interest Mortgages, and Sees Advantages to Home Builders in the So-Called "Packaged" Mortgages, Which Comprise Loans for Home Equipment as Well as Building Construction.

Mortgage money is cheaper today than ever before in the history of the United States. Even the Cooperative Banks, which have charged 6% ever since their organization years ago, are now loaning money at 4%. Moreover, the terms are very much easier than ever before. During the years preceding the last depression home mortgages were written for from three to five years as a maximum. Now the borrower can be accommodated by mortgages written for 20 years, or perhaps even longer.

Roger W. Babson

Cost of Building

Although it is much easier to borrow money today than during prewar days, the cost of home building now averages about 50% higher. However, the carrying charges at 4% on a house costing $7,500 are no greater, in total, than were the carrying charges at 6% on a house costing $5,000 in prewar days. Hence, this is a good time to plan a new home. **Surely the land should be purchased at once.**

The very fact that money rates are very low and building costs are high makes mortgages less attractive to the lender. In fact, I see little inducement for private individuals to loan money on mortgages at this time unless they do it to help the sale of property which they desire to unload. As a cold business proposition, I should hate to tie my money up for 20 years at 3½ or 4% interest. This is why I am bearish on most high grade, long-term bond issues.

"Packaged" Mortgages

Borrowers have another advantage today in many communities. I have just noticed an advertisement by the First Federal Savings and Loan Association of New Haven, Connecticut, offering to "loan money for building and equipping a home with all mechanical conveniences for comfortable living." This includes insulation, cooking range, refrigerator, washing machine, garbage disposal, ventilating fan as well as complete heating and lighting equipment and the latest plumbing fixtures. I understand that some banks are even including air conditioning.

Up to the present time, when these electrical appliances were available, it has been possible to buy them on installments, running over about 18 months. This, however, has been a heavy burden on young people. Now, under "packaged" mortgages, all these brand new appliances can be included with the original cost of the house, and paid for over a period of 20 years. Furthermore, this program is much more convenient to the borrower because he is dealing with and making payments to only one concern, namely the bank, instead of to several local dealers. I estimate the cost of such equipment would add only about 60 cents a month for every $100 worth bought on the above basis.

To keep the house up-to-date, these "packaged" mortgages allow for replacement of appliances and provide payments therefor by the addition of a few cents to the above-mentioned monthly figure. It should also be remembered that under such a program the cost of the appliances is considerably reduced as the agent's commissions are either eliminated or cut down to a nominal figure. Whether or not your bank will pay for your electrical appliances, it will take your mortgage on a monthly payment basis which will include payment of taxes, insurance premiums, legal title fees, and other expenses. All of this amounts up to no more than you are now paying for rent. Moreover, under this new system you will some day own your home outright without any more payments.

Bullish on Electrical Companies

When I saw the Government cancelling its big war contracts with the General Electric, the Westinghouse, and other similar companies after Japan collapsed, I became fearful. Although these companies would save considerable through the elimination of the excess-profits taxes, yet I doubted if new peace business would offset the loss of war business. The more, however, I study these "packaged" mortgages the more hopeful I become for the electrical appliance stocks. Certainly, if this new form of loaning money to home builders becomes general, it should be a boon to the electrical equipment industry. Home owners will buy much more equipment and much better equipment. Furthermore, this trend will make housework lighter, conserve and protect foods, and perhaps even reduce the cost of living. One other thought: This expansion should greatly increase the demand for "fix-it" shops which is a suggestion to returning G. I.'s.

SEE INSIDE BACK COVER

NASD Exonerates Halsey, Stuart & Co.

Governors of Association Decide That Attempt of Firm to Arrange Competitive Sale of Connecticut Light and Power Bonds Was Not Conduct Inconsistent With Commercial Honor or Ethical Trade Principles. Reverses Verdict of District No. 13 Business Conduct Committee.

The Board of Governors of the National Association of Securities Dealers on Feb. 4 rendered a decision in the case brought to it on appeal by Halsey, Stuart & Co., Inc., against a former ruling of the Business Conduct Committee of District No. 13 of the Association, which last November had rebuked Halsey, Stuart & Co., for "engaging in an unethical practice," when the firm attempted to arrange a competitive sale of Connecticut Light & Power Bonds. The sale of the bonds in question had already been arranged privately by hte company through two investment houses, and a hearing on the Confirmation of the sale was set before the Connecticut Public Utilities Commission. It was at this hearing that Halsey, Stuart & Co., put in appearance and made an offer to the company to buy the bonds at a price in excess of that to be received under private sale. The following is the full text of the decision of the Board of Governors of NASD in the case:

Board of Governors
National Association of Securities Dealers, Inc.

In the Matter of
The Connecticut Light & Power Company, *Complainant*
vs.
Halsey, Stuart & Co., Inc.,
35 Wall Street,
New York 5, N. Y.
Respondent

DECISION

Complaint No. 104, District No. 13

The Connecticut Light & Power Company, a corporation organized under the laws of, and doing business in the State of Connecticut, filed this complaint on June 13, 1945 with the District Business Conduct Committee of District 13 against the respondent, Halsey, Stuart & Co., Inc., a corporation organized under the laws of Illinois and a member of the Association, maintaining an office in New York City, alleging that certain conduct of respondent had been inconsistent with high standards of commercial honor and just and equitable principles of trade, in violation of Section 1 of Article III of the Rules of Fair Practice.

The respondent filed its answer on July 3, 1945 denying that it had violated the Association Rules, and thereafter both complainant and respondent file additional pleadings. Neither party requested a hearing before the District Business Conduct Committee and that Committee did not set the matter down for hearing upon its own motion under section 8 of the Code of Procedure for Handling Trade Practice Complaints.

The case was considered by the District Business Conduct Committee for District 13 upon the pleadings theretofore filed by the parties and its decision was issued on Nov. 1, 1945 finding that the respondent had violated Section 1 of Article III of the Rules, censuring the respondent for such violation and assessing against the respondent the costs of the proceeding. By letter dated Nov. 9, 1945 respondent made application for review by the Board of Governors of the decision of the District Committee and requested a hearing upon the review and an opportunity to file a brief. After due notice a hearing was held before members of the Board of Governors on Dec. 12, 1945, at which both parties presented oral argument. A brief was also filed by respondent.

During the early part of 1945 and for a number of years prior thereto, the complainant had outstanding $16,000,000 in principal amount of its 3¼% Series G bonds which were redeemable only on the semi-annual dividend dates of June 1 and Dec. 1 upon publication thirty days in advance of notice of its intention to redeem. The total redemption price for the entire issue of bonds outstanding on June 1, 1945 was $16,720,000.

Beginning in March, 1945, the complainant considered the possibility of refuning its outstanding Series G bonds by the issuance of additional bonds at a lower interest rate. After consultation with two investment banking firms in Connecticut, complainant concluded for various reasons that it was desirable to have all commitments in hand before Saturday, April 28, 1945 for the sale of a refunding issue of Series J bonds, to publish notice to redeem the outstanding Series G bonds on May 1, 1945, and to have the additional cash in hand and deposited with the Trustee for the redemption of the Series G bonds June 1, 1945.

Through the services of the two investment banking firms complainant was advised that seven insurance companies and one comercial bank would be interested in purchasing an entire issue of $16,000,000 in principal amount of complainant's 3% Series J bonds to be dated May 1, 1945 and due May 1, 1978. On April 18, 1945 complainant's Board of Directors formally authorized the employment of the two investment banking firms to act as complainant's agents to find purchasers by private placement for the new Series J bonds, and approved the form of application to be filed immediately with the Connecticut Public Utilities Commission for approval of the issuance of the Series J bonds. The application stated that the complainant "expects to sell these bonds through private sales to a limited number of institutions, at a substantial premium plus accrued interest," that the proceeds were to be used for the redemption on June 1, 1945 of its Series G bonds and that complainant "proposes at the time of the hearing to submit a statement of the amount of the premium to be received from the proposed sale and of the estimated expenses in connection therewith." This application was filed with the Connecticut Public Utilities Commission on April 18, 1945, and the Connecticut Commission, being required by law to give at least seven days' notice of the hearing thereon, set April 25, 1945 as the date of the hearing on such application.

On or about April 25, 1945, after further discussions with its agents,, complainant was advised that eight institutions had agreed to buy the $16,000,000 in principal amount of Series J bonds at a price of 106.980365%. The proceeds of this sale would be $17,116,858, from which would be deducted estimated expenses of $35,000 and the finders fees of the two investment banking firms in Connecticut of $40,000; and after redemption of the Series G bonds at 104½ the balance of the proceeds would increase the complainant's cash reserves by $321,858. The complainant's president presented these facts to the Connecticut Commission at the public hearing held before the Commission on April 25, 1945.

On April 19, 1945 respondent was advised by letter from the Secretary of the Connecticut Public Utilities Commission dated April 18, 1945, that complainant had filed an application for approval of the proposed issuance of the Series J bonds and that the matter was scheduled for hearing on April 25, 1945. Upon receipt of such letter respondent telegraphed the president of the complainant that "It is our opinion you can receive the highest possible price for your bonds only by offering them at open competitive sale. We hereby request an opportunity to submit a bid for your proposed Series J bonds at open competitive sale. We are accordingly advising the Connecticut Commission to this effect. We

(Continued on page 865)

Railroad Securities

While high grade rail bonds push steadily forward into new high ground, as typified by the record low interest cost on last week's Union Pacific Debentures, rail stocks remain in a narrow price range with the tone generally on the easy side. One of the notable exceptions has been Chesapeake & Ohio common. Having turned in a disappointing market performance for quite a spell while speculative enthusiasm held sway, this investment issue has recently been attracting considerable new buying interest at the highest prices reached in many years.

Harassed by a heavy excess profits tax burden during the war years the company had difficulty in showing any material margin of earnings over its dividend payments. However, the regular $3.00 a share and $0.50 extra were maintained for the four years 1941-1944, inclusive. Last year in lieu of the cash extra there was a distribution of one share of Pittston stock for each 40 shares of Chesapeake & Ohio. With the heavy tax burden and maintenance of dividends the road began running an excess of current liabilities over current assets, a condition which was not materially bettered through Sept., 1945. This naturally in turn resulted in a question in some investors' minds as to the possibility of continuing the dividend unless some tax relief was forthcoming.

Naturally the whole situation changed dramatically for the better late last year. Repeal of the excess profits tax was taken to virtually assure higher earnings for Chesapeake & Ohio given no more than a normal level of general industrial activity. Moreover, accelerated amortization of defense projects resulted in a large tax credit in 1945. The company had net working capital of only about $3,000,000 on Sept. 30 and by the end of November this had jumped to almost $33,000,000.

Traffic so far this year has been holding close to the levels of a year ago and should continue at high levels unless adversely affected by labor conditions in the steel mills or later in the coal mines. On the basis of the present prospects it seems reasonable to expect 1946 earnings of at least $4.50 a share which would fully justify confidence in maintenance of the $3.00 regular and $0.50 extra dividends. In fact, in many quarters it is anticipated that C. & O. stockholders may look forward to an even more liberal distribution.

The recent strength in Chesapeake & Ohio common has naturally again turned attention to the prospective merger of Pere Marquette into the parent company. It is expected that this offer will be reopened and approved by the boards of the two roads at their regular monthly meeting scheduled for Feb. 19. Some objections have been voiced as to the proposed treatment of the junior preferred stock of Pere Marquette but no formal opposition has appeared and the general feeling is that the plan will be consummated over the not too distant future. If this line of thinking proves correct both classes of Pere Marquette preferred stock are considerably underpriced at recent levels.

The prior preference stock is to receive one share of new Chesapeake & Ohio 3½% preferred stock and one-third of a share of Chesapeake & Ohio common. The preferred stock is to receive 0.8 share of the new preferred and 0.4 share of Chesapeake & Ohio common. The preferred is to be convertible into 1.6 shares of Chesapeake & Ohio common and will presumably be non-callable for either three or five years. The conversion price works out to just about 62½ for Chesapeake & Ohio or practically on the market at the present writing.

Without any conversion feature the new Chesapeake & Ohio preferred, with a dividend rate of 3½% protected by a wide margin of earnings even in depression years, should be worth a premium over par under present money market conditions. With the convertible feature very close to the market and protection from losing the stock through call for a few years at least, the stock should command a wide premium—the general feeling is around 115 to 120. On such a basis the Pere Marquette prior preference would be worth between 135⅝ and 140⅝ (now selling around 116) and the preferred would be worth between 116¾ and 120¾ (now selling around 94).

Andrew J. Lord Killed

Andrew J. Lord, head of Lord, Abbett & Co., Inc., 63 Wall Street, New York City, died in Memorial Hospital, Morristown, N. J., from injuries received when he was thrown from his horse near his home at New Vernon, N. J.

Andrew J. Lord

Lord, Abbett & Co., Inc., is one of the country's largest investment houses, sponsoring more than 60 million dollars of investment funds, including Affiliated Fund, Inc.; American Business Shares, Inc.; Union Bond Funds; Union Preferred Stock Fund, and Union Common Stock Fund. Prior to forming Lord, Abbett & Co. in 1929, Mr. Lord was Vice-President of Shields & Co. and was connected with S. W. Strauss Company.

He was chairman of the Board of Research and Management Council, Inc., and a director of the Morris County Savings Bank of Morristown, N. J., and the Atlantic Coast Fisheries Co. He was Vice-Chairman of the Morristown Chapter of the American Red Cross and was Chairman of the Chapter's finance committee. He was a member of the executive committee of the National Association of Investing Companies.

He is survived by his wife, Mrs. Evelyn Wiggins Lord; three children, Barbara, Andrew James, Jr., and Drew-Anne, and two brothers, Dr. John Wesley Lord, pastor of the First Methdoist Church of Westfield, N. J.; and Dr. C. Donald Lord of Glen Rock, N. J.

Buys Autocar Stock From Liberty Aircraft

Oliver H. Payne, Chairman of the board of Liberty Aircraft Products Corporation, announced that Atlas Corporation has purchased an additional 20,000 shares of Autocar Company 5% convertible preferred stock from Liberty. This transaction is pursuant to the option granted by Liberty at the time Atlas purchased the original block of 20,000 shares last December.

Sale of the two blocks of Autocar preferred represents approximately $1,000,000 for Liberty which had received the shares as dividends.

Liberty's holdings of 200,000 shares of Autocar common stock remain unaffected by these sales.

Elder, Wheeler & Co. Is Formed; NYSE Firm

O. L. Garrison Elder, Lieut., and William A. S. Wheeler, Lieut. Commander, U. S. Navy, recently released from active duty, announce the change of their firm name from Elder & Company to Elder, Wheeler & Co., members of the New York Stock Exchange. The firm, which has been inactive since the fall of 1942, has offices at 61 Broadway, New York City and 735 Broad Street, Chattanooga, Tenn., and has resumed its activities as specialists and Underwriters of Soft Drink Bottling securities.

Burton Marks Joins Staff Of Bache & Co., Detroit

(Special to THE FINANCIAL CHRONICLE)

DETROIT, MICH. — Burton Marks has become associated with Bache & Co., Penobscot Building. Mr. Marks has been serving with the U. S. Navy. In the past he was active as an individual floor broker on the Detroit Stock Exchange.

"Our Reporter on Governments"

By JOHN T. CHIPPENDALE, JR.

The "do nothing" attitude of the Treasury along with scarcity of offerings and the belief that prices will continue to rise, has brought about a spectacular upsurge in prices of Government bonds . . . Despite some profit-taking, the long-term restricted bonds which are now the bellwethers of the market, seem to be headed for higher levels with the recently issued 2½s apparently on their way to a 2.20% yield basis. . . . This trend toward a lower yield basis makes it easier for the Treasury to issue long-term obligations with a lower coupon rate when, as and if the money managers ever decide to use such a security again. . . .

On the other hand, this sharp up-trend in the prices of the long-term restricted obligations makes it practically impossible for the Treasury to offer 2½% bonds, because there would be plenty of criticism if more 2½s were to be issued with the outstanding securities selling at such a substantial premium. . . .

It would most likely be pointed out that the Government should be able to sell long-term bonds on a better yield basis than corporations. . . . Recently through investment bankers, there were sold to the public long-term corporate obligations that yielded under 2.50%. . . .

WHAT'S THE ANSWER?

The substantial increase in prices of Government bonds raises the question, "Where is the Government bond market going?" . . .

With the tremendous supply of money, there will be no increase in interest rates. . . . However, the present trend in Government bond prices has taken them to levels where it is no longer a question of low interest rates. . . . Bond yields are now approaching the point where there is considerable concern about the effect that this trend will have on our financial institutions. . . . This, it seems, is not as important as the political factor of lower and lower interest rates. . . . Those that are interested in sound debt management and a stabilization of interest rates, to avoid future unfavorable developments, seem to be in the minority, politically. . . .

Although a further decline in interest rates is certainly not warranted, there will be no stabilization unless the supply of intermediate and long-term obligations is increased. . . . If the Treasury uses only certificates in the refunding, then the long-term 2½s may go right on through the 2.20% basis and eventually end up yielding only 2%. . . .

This would make it possible for the Treasury to use "perpetual 2s," that have been largely in the background, but which may be more prominent in the future. . . . The market, through the lack of action on the part of the "money managers," would probably approach levels where a 2% obligation could be used, in about a year. . . . Short-term refundings plus a 2% obligation would cut the cost of carrying the debt burden, provided the inflationary forces have not gotten out of hand in the interim to bring about a higher level of interest rates. . . . So long as institutional buyers continue to run up the prices of outstanding Government obligations and buy long-term corporate bonds at record high prices, that even then go to a premium, there can be very little hope for stabilization in Government bond prices. . . . In the past, in the corporate bond market, large buyers have refused to purchase bonds that they believed were too high in price. . . .

WAIT AND SEE

A little watchful waiting on the part of institutional buyers seems to be worth consideration at this level of Government bond prices. . . . The future trend of the bond market depends upon two things, the attitude of the Treasury and the attitude of the buyers. . . .

While there seems to be a considerable support for the belief that the Treasury will continue to refund called and matured obligations with short-term issues and cash, it must be remembered that there is yet nothing official about such a policy. . . . Despite newspaper reports, and rumors, the Secretary of the Treasury has said nothing about the manner in which the refundings will be handled. . . .

Bankers and insurance company executives have conferred with Mr. Vinson, but they have received nothing that would give any indication of what the Secretary intends to do about postwar financing. . . . While the Treasury will no doubt in the near future make known the method of handling the refundings, the Government will be forced to issue lower coupon obligations if the present trend in Government bond prices continues. . . .

DANGER AHEAD

Debt management, of which the refunding program is a part, should be based on sound economic considerations. . . . If a policy of issuing only short-term obligations is followed, then it is a foregone conclusion that the yield on long-term Governments will decline, which means that the yield on corporates will also decrease. . . . This will lead to the purchase of obligations with lower rating by financial institutions which could have adverse effects in the future on our economic structure. . . .

Should a program be adopted of offering some intermediate and long-term obligations in the refunding operation and Federal continues to sell securities to offset the return flow of currency and the inflow of gold, interest rates would be increased slightly. . . . This would have a beneficial effect on the money markets since it would counteract the inflationary influences that have been causing so much concern. . . .

MEANWHILE . . .

What should be the investment policy of institutions under present bond market conditions . . . ? It seems to be the opinion of money market experts that until there is definite information on the refunding program from the Treasury, it is advisable for non-banking institutions to adopt a waiting attitude. . . . As for banks it is the prevailing opinion that these institutions should confine their purchases to certificates of indebtedness. . . . Most of the banks have or at least should have their investment program pretty well set at this itme, so that all they should be concerned about is the investment of new funds. . . .

By investing these funds in certificates of indebtedness they will be in a position to take advantage of any change in the financing program. . . . Any change in the financial policy of the Treasury would affect the Government bond market. . . .

Richard West Director of Irving Trust Co.

Harry E. Ward, Chairman of the Board of Irving Trust Co., announced the election of Richard H. West as a director of the company.


Richard H. West

Mr. West is Vice-President of the Irving, in charge of its trust business.

Prior to assuming those duties, several years ago, he was prominent in many phases of the company's lending and investing activities.

Before joining Irving Trust Co. in 1930, Mr. West had wide experience in the commercial field both here and abroad.

Sees Vital Role for Cost Accountants

David B. Caminez, Assistant Controller of Hyatt Bearings Division, General Motors Corp., addressed the Brooklyn Chapter of the National Association of Cost Accountants at the Central Branch of the Y.M.C.A., 55 Hanson Place, Brooklyn, N. Y., last Wednesday evening on the subject "Physical Unit Budgets for Factory Control and Other Budgets for Management Control." He stated that industry faces a challenge during the period ahead—the challenge to reach and maintain levels of high output, high level continuous employment, pay high wages and sell at low prices. In order to meet that challenge it will be necessary for industry to operate at higher levels of efficiency than ever before.

Mr. Caminez also stated that intelligent planning and sound budgeting procedures will be needed to attain the productivity necessary to do the job ahead. He discussed the vital part that cost accountants will play in this competitive market and the importance of budgets for cost control.

A. J. Burke Partner

BUFFALO, N. Y. — Albert J. Burke, Jr. has been admitted to partnership in A. J. Burke & Co., Ellicott Square Building.

NSTA Notes

BOSTON SECURITY TRADERS ASSOCIATION

About four hundred members and guests attended the twenty-second annual dinner of the Boston Security Traders Association at the Copley-Plaza Hotel. Thomas Graham, Bankers Bond Company, Louisville, President of the National Security Traders Association, was a guest.

Chairman of the committee in charge of the affair was John W. Altmeyer, Hayden, Stone & Co. Other members of the dinner committee were: William J. Burke, Jr., May & Gannon; Walter F. Eagan, Hunnewell & Co.; Arthur E. Engdahl, Goldman, Sachs & Co.; Herbert C. Smith, Blyth & Co., Inc.; Henry Larson, First Boston Corp.; Reginald M. Whitcome, Spencer Trask & Co.; Albert G. Woglom, W. H. Bell & Co., Inc.; and James H. Goddard, J. H. Goddard & Co.

Wm. Coulson Receives Legion of Merit

At a ceremony held in the Pentagon, Colonel William H. Coulson, a resident of Garden City, N. Y., who left Smith, Barney & Co. in June of 1942 for active duty, was presented with the Legion of Merit by Major General Glen E. Edgerton, Director of Material, Headquarters, Army Service Forces. Colonel Coulson's citation reads as follows:

"Colonel William H. Coulson, General Staff Corps, Army of the United States, served with distinction to himself and great benefit to the Purchases and Renegotiation Divisions, Army Service Forces, from July 1943 to November 1945. He materially contributed to the development and operation of an efficient organization to administer the complex responsibilities charged to the War Department by the Renegotiation Act."

Whitney to Start Ramie Firm

It has been reported that Richard Whitney, former President of the New York Stock Exchange, who served a prison sentence for larceny, will head a newly formed Florida textile company. The new company, Ramie Mills of Florida, Inc., has been organized to grow the ramie plant, and harvest, process and spin ramie fiber for commercial uses. Mr. Whitney will be President and director of the new concern, it is understood.

Public Utility Securities

(Continued from page 836)

1946 and building and maintenance costs will be sharply higher.

(5) With present bottlenecks, strikes and delays, it may be a long time before there is any further substanial gain in residential use of current due to new appliances and new homes. In the meanwhile, however, increasing operating costs will be cutting into net earnings, except where the utilities are permitted to retain substantial tax savings.

The conclusion appears to be that no "rule-of-thumb" forecast can be made for utility securities as a whole—the outlook for each individual company and security must be closely analyzed in the light of taxes, current regulatory methods, refundings, etc. While the outlook seems favorable on balance, analysts should do their best to combat the present craze for buying low-priced utility stocks and warrants without respect to their statistical set-up. Otherwise the public may again blame "Wall Street" for the eventual fiasco.

Henry Gully Joins Edward P. Field Co.

Edward P. Field & Co., 37 Wall Street, New York City, members of the New York Stock Exchange, announce that Henry Gully is now associated with the firm as economist. Mr. Gully formerly was with J. R. Williston & Co., and headed his own firm, Henry Gully & Co.

Dealer-Broker Investment Recommendations and Literature

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

Aviation Bulletin, including a special analysis of the **Glenn L. Martin Company**—John H. Lewis & Co., 14 Wall Street, New York 5, N. Y.

Convertible Preferred Stock, low price range—yields over 4½%—sells at only slight premium over parity with listed common stock of successful company—embodies potentialities for enhancement of values—ask for circular "ML Convertible Preferred"—Blair F. Claybaugh & Co., 72 Wall Street, New York 5, N. Y.

Ideas for Dealers—Discussions, in the February issue of **Marchant Calculating Machine Co., Hawaiian Pineapple Co., American Export Lines,** and **Gerber Products Company**—Kaiser & Co., Russ Building, San Francisco 4, Calif.

Nineteen New York City Banks—Breakdown of holdings, U. S. Government Bonds, by maturity categories; breakdown of sources of gross income—**Laird, Bissell & Meeds**, 120 Broadway, New York 5, N. Y.

Outlook for Railroad Earnings in 1946 — Detailed report — H. Hentz & Co., 60 Beaver Street, New York 4, N. Y.

Also available is a bulletin of **Research Comment** on several situations and a special memorandum on **Evans Products Co.**

Outlook for Railroads—In the current Review of Business and Financial Conditions—Hirsch & Co., 25 Broad Street, New York 4, N. Y.

Also available is a circular on **San Francisco Mines of Mexico, Ltd.**

Philippine Gold Mining Industry—A report by William F. Boericke, formerly Chief Valuation Engineer of the Philippine Bureau of Mines—Hayden, Stone & Co., 25 Broad Street, New York 4, N. Y.

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 company which should benefit from the automobile, building, and frozen food industries—Raymond & Co., 148 State Street, Boston 9, Mass.

Public Utility Bonds and Public Utility Preferred Stocks—New 1946 Edition—comparative statistical data on all major new issues from 1934 to the end of 1945, listing 310 bond and preferred stock issues of electric, gas and telephone companies—copies to security dealers and institutional investors on request—The First Boston Corporation, 100 Broadway, New York 5, N. Y.

Railroad Passenger Business—An analysis—Vilas & Hickey, 49 Wall Street, New York 5, N. Y.

Rubber Industry: An Appraisal 194?-1948—In the "Fortnightly Market and Business Survey"—E. F. Hutton & Company, 61 Broadway, New York 6, N. Y.

This Is the Road to Stock Market Success—By George Seamans—A new edition revised and rewritten to take into full account the present market position right up to the time of going to press—Seamans-Blake, Inc., Dept. C-1, C-2, 841 West Washington Blvd., Chicago 7, Ill.—$3.00 with privilege of returning for refund within fifteen days.

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.; Michigan Steel Casting Company** and **National Terminals Corp.**

Bank of America, N. T. & S. A.—Special study based upon the Dec. 31, 1945 statement—Butler-Huff Co., 210 West Seventh Street, Los Angeles 14, Calif.

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

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

Chicago Corporation—Detailed study—Penington, Colket & Co., 70 Pine Street, New York 5, N. Y.

Chicago & Southern Airlines—Bulletin of interesting news items affecting the company—Scherck, Richter Company, Landreth Building, St. Louis 2, Mo.

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** and **General Tin.**

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

Eastern Corporation — Memorandum—Buckley Bros., 1529 Walnut Street, Philadelphia 2, Pa. Also available are memoranda on **Midland Utilities** and **Gisholt Machine.**

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.

General Box—Analysis—Caswell & Co., 120 South La Salle Street, Chicago 3, Ill. Also available is a study of **Mississippi Glass Co.**

General Tin Investments, Ltd.—A report for dealers only—Ward & Co., 120 Broadway, New York 5, N. Y.

Getchell Mine, Inc.—Brief memorandum—L. H. Rothchild & Co., 52 Wall Street, New York 5, N. Y.

Gulf Atlantic Transportation Co.—Detailed circular on an interesting situation — Hardy & Hardy, 11 Broadway, New York 4, N. Y.

Allen B. du Mont Laboratories—Circular—J. F. Reilly & Co., Inc., 40 Exchange Place, New York 5, N. Y. Also available is a circular on **Aetna Standard Engineering** and **Great American Industries.**

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.

Miller Manufacturing Co.—Analysis of current situation and prospects for 1946—Comstock & Co., 231 South La Salle Street, Chicago 4, Ill.

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

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.**

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.**

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

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.**

Vicana Sugar Co.—Analysis—Zippin & Company, Inc., 208 South La Salle Street, Chicago 4, Ill.

New York Stock Exchange Weekly Firm Changes

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

Elwood P. McEnany died on Feb. 1, as of which date Bond, McEnany & Co. retired as a member firm.

Malcolm Smith withdrew from partnership in Glore, Forgan & Co. on Jan. 31.

Interest of the late William Cavalier, limited partner in Dean Witter & Co., ceased as of Jan. 31.

House Committee Votes River-Harbor Bill

The House Appropriations Committee on Feb. 6 approved and sent to the floor of the House a measure appropriating $300,987,498 to be devoted chiefly to river and harbor and flood-control projects. The bill would finance work on numerous programs put aside during the war, and would provide $15,000,000, for work on the cross-Florida barge canal, a controversial point in Congress for many years. Final approval of the legislation would carry forward a long-range program of work already authorized in past years, of which the ultimate cost would be a billion dollars or more. According to the Associated Press report of the committee's approval the measure if passed would provide funds as follows:

For continuing construction work on 21 river and harbor projects, the bill provides $42,776,250, a reduction of $7,803,250 from budget estimates, in addition to $2,235,500 for advance planning on 20 other projects.

Maintenance and operation of existing river and harbor projects accounts for $67,871,500 of the bill's total.

The largest lump allotment is $110,814,000 for general flood-control work on 62 projects throughout the country. This is exclusive of $46,000,000 for flood-control work on the Mississippi River and its tributaries.

For the Panama Canal, the committee recommended $19,801,000, including $2,010,000 for sanitation work.

Among the projects for which appropriations are carried are: Rivers and harbors—New York, $1,510,000; New York and New Jersey Channels, $3,634,000.

Flood-control (general)—Syracuse, N. Y., $900,000; Almond Reservoir, N. Y., $1,100,000; East Sidney Reservoir, N. Y.; $1,200,000; Elmira, N. Y., $540,000; Mount Morris Reservoir, N. Y., $1,000,000; Buffalo Harbor, N. Y., $12,500; Black Rock Channel and Tonawanda Harbor, N. Y., $5,000.

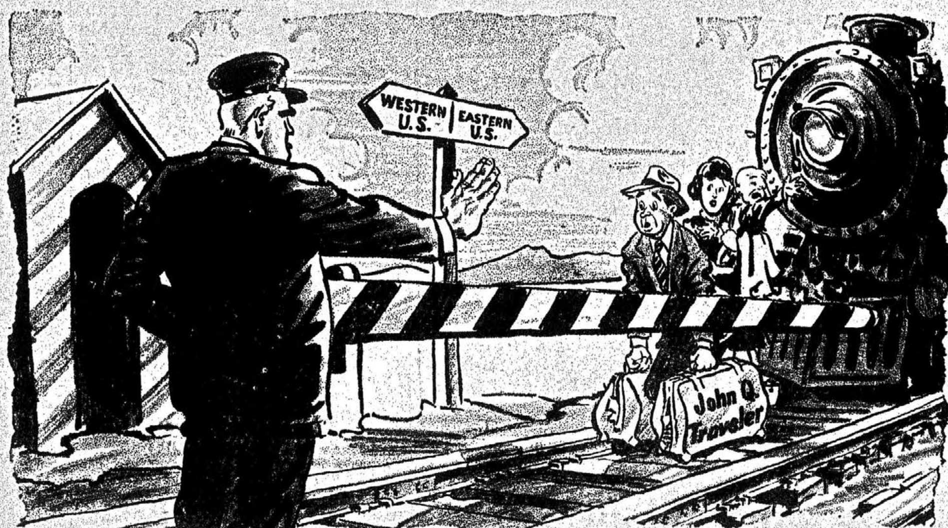
Flood-control planning—Copes Corner Reservoir, N. Y., $180,000; Genegantslet Reservoir, N. Y., $60,000; South Plymouth Reservoir, N. Y., $190,000.

Omo Hundro to Open

Omo Hundro will shortly open offices in New York City to engage in the investment business. He was formerly a partner in Keays & Co.

Are Chicago and St. Louis Part of America—or Not?

Why should through rail travelers be held up at their frontiers? The cities aren't to blame. What can be done about it?



ALTHOUGH our 48 states are knit together by the greatest rail system in the world, we are still strangely backward on one score.

A passenger cannot go through Chicago or St. Louis, two major rail centers, without changing trains. He must break his trip.

It is almost as if he reached the frontier of some foreign state whose borders were closed to traffic. There is no customs barrier at Chicago or St. Louis, but the traveler must nevertheless pay an exasperating toll—in delay, inconvenience, and bother.

Half a Million Victims!

This is bad enough for the transcontinental traveler who would like to board a sleeper on one coast and ride through to the other—without the nuisance of packing and transferring baggage, making double Pullman reservations, waiting around for connections.

But it is worse for the passenger who starts only a few miles either side of Chicago or St. Louis—and *still* must change trains. For example, travelers between Fort Wayne and Milwaukee, and between Cleveland and Des Moines, must also break their journeys.

More than half a million passengers a year—the vast majority on short mid-continent trips—are forced to make troublesome, time-wasting stopovers at Chicago or St. Louis.

Why should this be so?

The cities themselves are not responsible for setting up a barrier in the way of the through traveler. Such a barrier promotes neither good business nor good will for the community.

For, while travelers with business to transact would automatically stop over, those who are *forced* to stop resent the inconvenience and delay—particularly in these days of overcrowded restaurants and cabs. It makes them down-right mad at Chicago and St. Louis!

And it is so unnecessary! In Canada, you can travel across continent, from Montreal to Vancouver, by a choice of two routes *without changing trains.* Canada isn't split down the middle. Why should we be?

An Unsolved Mystery!

No one has given an adequate explanation as to WHY there is no connecting rail service through Chicago and St. Louis (or through Memphis and New Orleans, for that matter) as there is through New York, Washington, Kansas City, and other big rail centers.

It remains an unsolved mystery—a secret not yet revealed. But the plain fact is—the public is not getting through service!

How About Action NOW?

The Chesapeake & Ohio and the Nickel Plate Road are not the only railroads that, working with others, could provide such through service. But we are the only roads that have offered to take immediate action.

This is the proposal we have gone on record as making:

Chesapeake & Ohio, whose western passenger terminus is Cincinnati, stands ready now to join with any combination of other railroads to set up connecting transcontinental and intermediate service through Chicago and St. Louis, on practical schedules and routes.

The Nickel Plate Road, which runs to Chicago and St. Louis, also stands ready now to join with any combination of roads to set up the same kind of connecting service through these two cities.

Through railroad service cannot be blocked indefinitely. The mysterious frontier must be abolished—in the interest of the traveling public and the railroads themselves.

We invite the support of the public, of railroad people and railroad investors everywhere—for this essential improvement in rail transportation.

Chesapeake & Ohio Railway · Nickel Plate Road

Terminal Tower, Cleveland 1, Ohio

Mutual Funds

In Requiem

The untimely death this week of Andrew J. Lord, co-founder and guiding spirit of **Lord, Abbett** and its affiliated investment companies, came as a severe shock to all of us in the mutual fund field whose good fortune it was to know "Andy."

We had planned to review in this column Mr. Lord's recent article in "The Economist," "A Challenge to America. . . . Get to Work!" With his passing, we quote the following passages as a tribute to his fearless thinking at a vitally important point in our national history.

"Today, as never before, we are a monied nation. This is a fact which calls for no sense of smugness or self-adulation. On the contrary, it is a rousing challenge to America to get to work—to get to work producing, and planning for maximum production at the earliest possible date.

"We are a monied nation, to be sure, but we must learn that there can be a world of difference between money and wealth. We have more money than we have ever had before, but less wealth than we have had in a long time. . .

"Activity alone is not enough, because activity in itself does not necessarily produce wealth. During the late thirties, activity was accomplished through leaf-raking and boondoggling, but little production resulted. . .

"We must not confuse full employment with full production. The whole economic progress of the world has consisted of getting more production with the same labor, or less. In this country we have been able to eliminate child labor and to reduce the average working hours, while building up our production and improving our standards of living.

"We must have activity that is productive—that results in a mighty flow of useful goods and services, with a price structure that moves these goods and services to the maximum number of people. . .

"Labor unions, with their present power, can place the hand of stagnation on enterprise. When one thousand men leave a plant in a strike over working conditions, the employer's self-respect and fighting courage are challenged. When just one man leaves a plant because working conditions are better across the street, the employer's brain cells, rather than his adrenals, are set to work. . . .

"The reward for intelligent effort by all in an atmosphere of good will is a vigorous and wealthy nation. The penalty for failure is the false glory of inflation."

Incorporated Investors

Net assets of **Incorporated Investors** increased from $57,235,622 at the beginning of 1945 to $83,530,669 at the end of the year. Net asset value per share increased from $23.71 to $30.44 Adding back all dividends paid including $3 per share from net profits realized during the year, the per share net asset value of Incorporated Investors increased 44.6% compared with an increase of 32.3% for the Dow-Jones Composite Average similarly adjusted. At the year-end unrealized profits on portfolio securities amounted to $32,662,912, equivalent to $11.90 per share.

In his letter to stockholders, William A. Parker, President, announced that "the policy of seeking capital gains continues. It is believed to be of particular importance in endeavoring to maintain and increase purchasing power in a period of probable rising prices for goods and services.

"It is recognized that from time to time there will be declines in the price of common stocks, but it is difficult to believe that the nation which has achieved an economic and financial eminence perhaps never equalled can fail to enjoy prosperity while the pent-up demand for goods is so vast and the reservoir of accumulated purchasing power so great."

George Putnam Fund

Since its organization eight years ago, the **George Putnam Fund** has achieved a remarkably steady growth record. The annual report for 1945 reveals an increase in net assets during the year from $11,181,000 to $16,161,000. Of this gain, slightly over $3,200,000 resulted from the investment of new money in the shares.

During the year the common stock portion of the Fund was reduced from 59% to 45% of the total. The dependable fixed income portion was increased from 20% to 28% and the investment backlog was increased from 21% to 27%. The Trustees commented on this change as follows: "This shift in balance, placing the Fund in a more conservative position, reflects a more cautious investment policy on our part in view of the substantial and long-sustained advance in security prices."

An unusual feature of the report is a page devoted to the investment dealers who participate in the distribution of Putnam Fund shares. We quote in part "Today's successful investment salesman is more than a salesman —he's an experienced and qualified adviser who looks at his work in a truly professional manner. He is selling advice as well as securities, and he knows that his own personal success over the years depends on how good a job he does for you—the investor.

"The guidance of a good investment man is the best aid the investor can have in these changing times. Pick him as you would your doctor or your lawyer. Keep in mind that as a client you will deal with him through the years and select a man or woman who will become a trusted friend and adviser. And when you find such a person give him your confidence and deal with him openly as a friend. He can help you build a sound financial program if you will give him a chance."

Wellington Fund

The annual report of **Wellington Fund** came to hand this week While we included figures on the Fund's operations for the year in our column of Jan. 22, there are some features of this report deserving particular attention. The charts, "How Your Wellington Dollars are Invested," showing the breakdown of the Fund's assets as of Jan. 1, 1945, June 30, 1945 and the end of the year, reveal a gradual shift into more conservative types of investments. The common stock portion of the Fund was reduced from 55% to 47.6% of total net assets during the year, while U. S. Government Bonds increased from 9.6% to 17.2%.

"The objectives of your fund," writes Walter L. Morgan, President, "are—1. to provide a reasonable annual return on your investment, payable quarterly; 2. to secure appreciation in advancing markets without undue speculation; 3. to conserve the value of your investment."

We like the keynote of this report—"Prestige in investment management is based on accomplishment."

Keystone Custodian Funds B-1 and K-2

During 1945 **Keystone Fund B-1** increased its total net assets from $3,030,264 to $4,548,305, reflecting an increase of more than 48% in the outstanding shares of the Fund and an increase in net asset value per share from $27.86 to $28.23.

Keystone K-2 during 1945 increased its net assets from $3,461,527 to $7,061,964, reflecting an increase of more than 62% in the outstanding shares of the fund, an increase in the net asset value per share from $22.72 to $28.59.

Total net assets of the 10 Keystone Custodian Funds at the year-end amounted to more than $160,000,000.

Note to Dealers

The Securities & Exchange Commission's Oxford Company decision has undoubtedly caused a great deal of confusion among dealers as to their own position in the offering of securities to customers. So far as the offering of mutual fund shares is concerned, however, the position of the dealer is clear. He acts as principal. This point is confirmed in a letter from the Securities & Exchange Commission to Mr. John M. Sheffey of the National Association of Investment Companies under date of Feb. 1, 1946. For a copy of the letter we suggest you write to Mr. Sheffey at 61 Broadway, New York.

Mutual Fund Literature

National Securities & Research Corp.—Current issue of Investment Timing discussing "The Advance in Retail Trade Securities"; Current Information folder for February on National sponsored funds; portfolio memorandum showing changes in National sponsored funds during the month of January. . . . **Keystone Co.**—February Current Data folder on **Keystone Custodian Funds:** January issue of The Keystone Investor. . . . **Lord, Abbett**—Composite Summary folder for February on the Lord, Abbett group of investment companies.

Dividends

Investors Stock Fund, Inc.—A dividend of 10¢ per share payable Feb. 21, 1946 to shareholders of record Jan. 31.

New York Stocks—The following dividends payable Feb. 25, 1946 to stockholders of record Feb. 5:

Series	Per share
Agricultural	.04
Automobile	.06
Alcohol & Dist.	.06
Aviation	.08
Bank Stock	.07
Building Supply	.04
Business Equip.	.07
Chemical	.05
Electrical Equip.	.04
Food	.10
Government Bonds	.03
Insurance Stock	.08
Machinery	.08
Merchandising	.09
Metals	.07
Oil	.04
Public Utility	--
Railroad	.06
Railroad Equip.	.09
Steel	.05
Tobacco	.10
Diversified Investment Fund	.20*
Diversified Spec. Shares	.04

*Includes .05 from securities profits.

Our Reporter's Report

Unless, as now appears unlikely, the Treasury yields to urgings to revise its monetary theories, there is strong indication that we may be in for another run of corporate refundings.

Though it looked, only a short time ago, as though industry had just about reached the ultimate in paring down the carrying costs of its debts through refinancing at lower coupons, the general situation has changed decidedly since the turn of the year.

Certainly the manner in which the rank and file of top-grade corporates have been crowding the Treasury's issues in the open market could prove conducive to reconsideration of their debt structures by many companies who have refunded earlier refunders in the last few months.

The Treasury still adheres to the idea that cheap money is essential. Fundamentally it is concerned with keeping down the cost of carrying the national debt, but there is much talk of the stimulating influence of low money rates on the general business picture.

In order to keep its costs down, the Treasury persists in borrowing on short-term paper which is attractive only to banks and which in turn swells the volume of credit, thus forcing interest rates relentlessly downward.

The surprise would be, of course, if corporate borrowers were to let pass the opportunity to do some more shaving of their interest costs if the situation persists for any appreciable length of time.

Consolidated Edison

A "straw-in-the-wind" is the action of Consolidated Edison Co. of New York in calling a special meeting of its shareholders to authorize the execution of a new mortgage on its property and franchise.

The President of the big utility, in his letter calling the meeting, stated plainly that "this is a preliminary step to refunding the long term debt of the company and the possible issue of additional bonds."

The company has outstanding three series of debentures and some 11 mortgage bond issues put out by predecessor companies aggregating $323,151,000. The average interest rate on 304 millions of the total which is callable, is about 3.37%.

As things now stand, company officials are confident of their ability to refinance the debt at substantial savings.

Setting the Stage

There can be no sidestepping the fact that what has been happening in the new issue market since the turn of the month shows clearly which way the wind is blowing.

Hardly a week ago Southern Pacific was able to sell an issue of $50,000,000 of new bonds maturing in 40 years and carrying a 2⅞% coupon at 100.6599, with bankers reoffering the issue at 101½ to yield 2.81%.

The next day Union Pacific sold $44,493,000 of new 2⅞% 3-year debentures at an interest cost of barely 2.50% to the borrower and bankers reoffered the issue at 108½ to yield about 2.47% to maturity.

Now Southern Pacific is asking bids to be opened next Monday on $50,000,000 additional of series F first mortgage bonds to mature in 50 years. This time to refund a like amount of series C 3¾s sold early last fall. It will be interesting to see how far bankers, who reflect the temper of investors, will reach for this one.

New Issues in Sight

Five more companies have gone into registration on projected new issues, most of them equities. Scranton - Spring Brook Water Service Co. plans the sale of $23,500,000 of new first mortgage bonds, due 1976, and 100,000 shares of new cumulative preferred.

Alabama Power Co. has filed 300,000 shares of $100 par, 4.20% preferred to be exchanged for outstanding $7, $6 and $5 preferreds. Any unexchanged balances presumably will be underwritten.

Cherry-Burrell Co. has filed for 40,000 shares of new $100 cumulative preferred, while Cincinnati Milling Machine Co. has registered 230,000 shares of $10 par common, of which 113,113 is for holders and does not represent new stock.

Merck & Co. Inc. brings up the finish for the moment with registration covering 120,000 shares of preferred and 118,000 shares of common. Of the latter 18,000 shares is for the account of present holders.

Bank and Insurance Stocks

By E. A. VAN DEUSEN

The one hundred and twenty-seventh annual report of the Aetna Insurance Company has just been received. In the "President's Letter to the Stockholders," Mr. W. Ross McCain comments on the Supreme Court decision, which declared insurance to be "interstate commerce," and hence subject to the anti-monopoly laws, as follows:

"During the past year much progress has been made in revamping the rules, rates, and practices of the fire and casualty insurance companies to comply with the changed conditions brought about by the Supreme Court decision in the South-Eastern Underwriters Association case. The companies are rapidly recovering from the first confusion and shock of this fundamental change in the method by which the business has been so successfully operated. They are now cooperating with the states in revamping laws which are workable and practical and which preserve to the states the supervising of the insurance business, but laws sufficiently flexible to avoid the putting of the business in a straitjacket. If the free enterprise system is to be allowed to continue, the insurance business will find a reasonable solution."

The Aetna Insurance "fleet" comprises the following companies: Aetna Insurance Co., Century Indemnity Co., Piedmont Fire Insurance Co., Standard Insurance Co., Standard Surety & Casualty Co., and World Fire & Marine Insurance Co.

According to the report, premium business written in 1945 was higher than in 1944 for all companies except Standard Insurance Co. of New York, as shown in the tabulation below:—

Company—	Net Premiums Written 1945	—Increase Over 1944—	
Aetna Insurance	$36,452,072	$4,095,809	11.2%
World Fire & Marine Insurance	2,901,038	66,904	2.3
Piedmont Fire Insurance	2,598,831	219,460	8.4
Standard Insurance Co. of New York	4,669,541	—314,668	—6.7
Total Fire Group	$46,621,482	$4,067,505	8.7%
Century Indemnity	9,374,501	899,413	9.6
Standard Surety & Casualty of New York	4,080,576	540,763	13 3
Total Casualty Group	$13,455,077	$1,440,176	10.7%
Total, 6 companies	$60,076,559	$5,507,681	9.2%

It will be noted that the annual volume of business done by the parent company, is approximately 50% greater than the combined business of the other five companies.

The operating report of Aetna Insurance Company for 1945 shows a substantial improvement in earnings over 1944, as the following comparative figures indicate:—

	1944	1945
Statutory underwriting loss	$1,555,393	$1,272,108
Premium reserve equity	1,333,507	1,414,641
Net adjusted underwriting loss or profit	—$221,886	+$142,533
Net investment income	1,745,175	1,830,627
Total net operating profits (before taxes)	$1,523,289	$1,973,160
Taxes	67,607	69,757
Total net operating profits (after taxes)	$1,455,682	$1,903,413
Per share (750,000)	$1.94	$2.54

Surplus, unearned premium reserves and liquidating value of the parent company, as of Dec. 31, 1945, are each substantially above 1944 year-end values.

Item—	Dec. 31, 1944	Dec. 31, 1945	Increase
Unearned premium reserve	$27,846,264	$31,382,867	12.7%
Conflagration reserve	5,000,000	6,000,000	20.0
Surplus	22,290,261	23,594,671	14.8
Capital	7,500,000	7,500,000	---
Liquidating value	45,928,767	49,647,818	
Liquidating value per share	$61.24	$66.20	8.1

Two weeks ago this column presented the 1945 operating results of Continental Insurance and Fidelity-Phenix Insurance, compared with 1944 figures. Both of these companies showed improved earnings, despite the exceptionally high fire losses of last year. Continental's total net operating profits were reported at $3.17 per share compared with $2.82 in 1944, and Fidelity - Phenix reported $3.33 compared with $3.12.

In view of such relatively favorable results for these three companies it may be of interest to quote Standard & Poor's opinion, as published in their Insurance bulletin, dated Feb. 1, 1946, as follows:—

Aetna Insurance Co.: "Although returning only a moderate yield, the capital stock has a measure of semi-investment appeal in view of the satisfactory longer-term earnings outlook and the strong financial position of the company."

Continental Insurance Co.: "The capital stock is reasonably priced in relation to the 1945 year-end parent company stockholders' equity of $65.20 per share."

Fidelity-Phenix Fire Insurance Co.: "The generally favorable longer-term prospects and the good yield provide the capital stock with above average attraction."

This column expects to present 1945 operating results of other insurance companies, compared with 1944, as the figures become available.

Good and the Bad in Pending Case Anti-Strike Bill

(Continued from page 832)

dent to send his "fact-finding" bill to Congress. The machinery it creates is introduced with this indisputable proposition: "Government decision should not be substituted for free agreement, but governmental machinery to promote peaceful settlement of disputes should be improved."

The second part of the bill goes under the title of "Miscellaneous Provisions", a most appropriate name. It deals with such diverse matters as the binding effect and enforcement of collective bargaining contracts on companies and unions, violence and intimidation in labor disputes, the removal of supervisory employees from the jurisdiction of the Wagner Act, and boycotts to compel an employer or another person to deal with or use the members of any labor organization.

For reasons of space as well as because the first part of the bill is directly germane to the problem of labor disputes with which we are now plagued, this article will be confined to that part of the bill.

The bill provides that the Labor Management Mediation Board to be created to settle labor disputes should be composed of an equal number of representatives of industry, labor, and the public. That's definitely on the credit side of the ledger. The War Labor Board was a tripartite agency and its three way composition added much to its strength. No matter how well informed a public representative may be, he cannot possibly give the same, well rounded consideration to labor disputes by himself or with others of similar background and experience as can a body that also has as its try and labor. members representatives of indus-

All of the industry and labor members of the War Labor Board, as well as its public members, would be quick to agree, I am sure, with this general proposition, based on their experience on the Board.

There's another virtue in the bill. It stresses meditation rather than fact-finding as proposed by the President. The facts in a labor controversy are seldom in dispute. Everyone involved knows how much the union is asking, what the the employer is offering to pay, the rates the workers are receiving, what others in the industry are paying, and so forth.

What the parties can't agree on is how much of an increase, if any, should be granted.

A good mediator can frequently bring the parties to a common understanding. Accordingly, the bill gives the mediators a free hand to handle each case in whatever way they think will be most effective in ending the dispute. And this is as it should be. The President's proposal, on the other hand, provides for a formal hearing with subpoena powers for the fact-finders, resembling a trial in a court of law. Most people familiar with settling labor disputes will tell you that formal proceedings frequently add to the difficulties of bringing a dispute to a conclusion.

When we get into the guts of the bill, however, the debit side of the ledger moves into prominence.

First of all, the bill applies, at least potentially, to all employers in this country with 250 or more employes. As originally proposed, that number was 50 employees. But even as amended, it still covers a lot of territory. There is, however, a limitation on jurisdiction, and here's how it would work:

Whenever a union at a company with 250 employees or more wanted to strike, it would have to serve notice on the Labor-Management Mediation Board and then wait five days.

During this 5 day period, the Chairman, Vice - Chairman, and Secretary of the Board (the industry and labor members have no voice in this matter) would be required to determine whether the dispute is one which "substantially obstructs or interferes with interstate or foreign commerce and affects the public interest and cannot be expeditiously adjusted by collective bargaining".

If they make such a determination, the Board has jurisdiction over the dispute and is then required to try to settle it.

Once the Board has such jurisdiction, the Chairman (and no one else) has authority, although he doesn't have to exercise it, to issue an order "requiring any person to refrain or cease and desist from calling or assisting in any manner, a strike arising out of such dispute." He can make this order effective for any period of time up to but not longer than 30 days from the date on which the Board took the case.

But this order is not self-enforcing. In other words, there's no sting to it. To make it legally binding, the Attorney General has to go to court for an order backing up the Chairman's order and the court order is subject to review in the Circuit Courts and on up to the Supreme Court. And the court order can't extend beyond the Board's 30 day period of jurisdiction.

The bill goes on to say that the Chairman of the Board cannot compel any individual to work without his consent. Thus he can stop a union officer from leading a strike but can't prevent the employes from striking. The point of the exemption for individual workers is obvious. No law compelling anyone to work against his will would be legal; it would amount to "involuntary servitude" which is banned by the Constitution.

Here's what all of this adds up to:

If the Chairman does not issue an order against any leader calling a strike on the day the Board takes jurisdiction, there is nothing to prevent the union from striking. If he does issue an order, it applies only against the individual named, and any other official of the union, and there are many, can lead the strike. Besides, it is not enforceable until a court order is obtained, and by that time the strike can be well under way.

Of course the union official could not take any further part in heading the strike, but the damage would have been done. What's more, the language of the bill might be construed so that this particular union official could not use his good offices to get the strike settled after the court had issued an order against him.

It is a little naive to believe, moreover, that you can prevent strikes simply by ordering a union official not to lead them. We know that from our experience during the war with the Smith-

Connolly law which had a somewhat similar provision, but did not stop the Mine Workers from striking even after Government seizure of the coal mines.

Let's turn back a moment to the matter of jurisdiction. The three public members, as stated, would have five days to decide whether to take any particular case. They would have to pass on two questions: (1) whether interstate or foreign commerce is involved, and (2) whether the dispute "substantially affects the public interest".

Just imagine, in times of labor unrest like the present, how many notices the Board would receive from companies with 250 or more employees. To say the least, the Board would have a sizable job on its hands. And when it rejects jurisdiction, the Board would be giving, in effect, its blessings to a strike as not affecting the public interest.

Then look at the exclusion of companies with less than 250 employees. I can easily envision a strike at a power plant in a moderate size community where less than 250 employees are on the payroll which would cripple all other industrial activities, endanger life and health, and "substantially affect the public interest." The Board couldn't do anything about that at all.

While the tugboat strike involves more than 250 employees, it serves to indicate how a relative small number of workers can throw a metropolis like New York into utter confusion.

Maybe some of these problems are fancied, not real. Maybe not. I could go on and name a dozen more items that could readily cause major difficulties. Others would be able to spot still more. And I haven't even touched the "Miscellaneous Provisions" of the bill.

In my judgment, it all adds up to the old saying: haste makes waste. Assuredly we have a lot of strike trouble at the present time. But just to legislate is not going to solve the problem unless the legislation is sound.

Undoubtedly there are many good points in this bill. On the law of averages, it couldn't miss. Remeber, however, that the damage the bad parts can do may easily outweigh any possible good.

Wouldn't the sensible thing be for Congress to strike out all the provisions of this bill except that part that calls for a "broad and comprehensive study" to determine what's necessary to bring about lasting industrial peace?

Maj. Sikora Rejoins Wm. J. Mericka & Co.

Wm. J. Mericka & Co., Inc., announces that Major A. A. Sikora has rejoined their organization in the New York office, 29 Broadway.

Major Sikora entered service in 1941 and was commissioned in 1942. He remains in the active reserve with the rank of Major. He was last stationed at Nuremberg, Germany, and returned to this country in January of this year.

Henry Milner Joins Mercantile-Commerce

Henry Milner, formerly associated with Smith, Barney & Co., and recently a second lieutenant of infantry, A. U. S., has joined the Mercantile-Commerce Bank & Trust Co., St. Louis, Mo. He will be connected with the municipal bond department in the New York correspondent's office of the bank, 14 Wall Street.

Canadian Securities

By BRUCE WILLIAMS

In sharp contrast to the labor situation in this country, with some 2,000,000 men currently out on strike, the Canadian Department of Labor reports that on Jan. 31 in all Canada only 120 employees were out on strike.

However, rumblings from the Canadian CIO and the Canadian Congress of Labor (CCL) indicate trouble ahead. These unions can hardly afford to accept the status quo in Canada if their American counterparts succeed in raising hourly wage rates here by the 15%-18% now in prospect.

It is equally clear that if the basic steel wage rate in Canada goes up, prices of a great many manufactured commodities will have to go up too. This, in turn, will increase the out-of-pocket expenses of Canadian farmers and will inevitably result in a demand for higher farm prices.

For Canada, such developments are likely to be even more far-reaching in their effects than they will be here. For Canada is more dependent on her export trade than we are, and a general hike in the cost of production would weaken her competitive position in the world markets. No wonder that Dominion officials and businessmen alike are watching the American wage-price battle with such keen interest.

On the basis of her past record, it is not likely that Canada will be stampeded into hasty, ill conceived wage or price action, regardless of the outcome here. However, with about one-third of her steel requirements normally supplied by this country, a substantial boost in the price of American steel is bound to increase Canadian production costs, just as a substantial wage boost here will ultimately force wage increases there.

In view of our own hapless muddling through these serious adjustments, it should be a good object lesson for American business and American labor to observe how these adjustments are brought about in Canada over the next few months.

* * *

Although the Dominion-Provincial tax conference reportedly came near to a basis for agreement in the last meeting, it did not achieve a solution and a further meeting has been called for April 25. At present the most acceptable basis for agreement appears to be as follows:

1. Ottawa to have exclusive jurisdiction over personal and corporate income taxes in return for a minimum guaranteed grant of $15 per capita to the provinces, based on 1942 population and adjusted upward with increasing national income.
2. The provinces to have exclusive jurisdiction over specific taxes such as gasoline, amusement, gas, electricity, telephone and telegraph messages, betting, etc.
3. Ottawa and the provinces to share succession duties on an equal basis.

A constitutional amendment is being demanded by some of the provinces to make certain that Ottawa will not again invade the field of specific taxes except "in time of emergency." Americans who will recall the almost constant "state of emergency" which existed in this country between 1933 and 1939 under the New Deal might suggest that "emergency" be rather carefully defined if the amendment is to mean anything.

Turning to the markets for the past week, there is still little that is new to report. Canadian bonds continued strong in all categories with the demand good and the supply tight. For example, Canadian Pacific perpetual 4s sold at 116—an all time high. The stock market was somewhat easier in sympathy with the reaction here. However, there was no real pressure on the downside. On Lincoln's Bithday, with our markets closed, the Canadian stock market was dull and only a shade easier.

As reported here before, we can foresee no near-term change in the upward trend of Canadian bond prices.

Henry G. S. Noble Dies; Former Exchange Head

Henry G. S. Noble, president of the New York Stock Exchange during World War I and senior member of its board of governors at his retirement in 1938, died at his home at the age of 87. Mr. Noble owned a seat on the Exchange that has been held by his family through five generations, inheriting the seat from his grandfather, Henry G. Stebbins who joined the Exchange in 1831 and was its president through the Civil War years. In 1938 he turned the seat over to his grandson, Henry Stebbins Noble.

For twenty-five years, Mr. Noble was a full partner in De Coppet & Doremus. He retired from this position in 1927 but continued as a special partner of the firm as long as he kept the seat on the Exchange.

Charles D. Field Rejoins Eaton & Howard Staff

SAN FRANCISCO, CALIF.—Charles D. Field has returned to his former position with Easton & Howard, Incorporated, 333 Montgomery Street, after four years in the Army Air Force.

Captain Field was a Squadron Commander in the Training Command. He was with Eaton & Howard in the San Francisco office for six years prior to the War.

First Colony in New Location

First Colony Corporation announces removal of its offices to 52 Wall Street, New York.

Financial Reconstruction On the Continent

(Continued from page 831)

—after extraordinary effort—in the orthodox way, to a series of fortunate, temporary circumstances. Such a constellation was not likely to occur again. Nevertheless, after World War I, England speculated on similar developments. These, as is well known,

[Mr. Dreyfus, the Swiss Banker, is the author of the book "Wirtschafts-Wende" (Turning Point of Economy), published in Switzerland last fall. The ideas he expresses there on reconstruction of currencies and public indebtedness on the European Continent are based on his 30 years' practical experience as head of the banking house L. Dreyfus & Co. in Berlin and Frankfort on Main during a period of the most pronounced inflation and deflation in Germany. Mr. Dreyfus is now in New York on a short visit. This article is a condensation of his ideas on financial reconstruction on the Continent.—Editor.]

failed to take place and yet the Napoleonic Wars are again referred to in discussions regarding the manner in which the financial consequences of World War II are to be overcome.

Liquidation of the U. S. War Debt

There is no doubt that the economy of the United States is sufficiently vigorous and comprehensive to enable it to pay off its war debt in the orthodox sense. However, this will be possible only if no more serious wars overtake the present generation and if the nation and the government succeed in avoiding grave mistakes. A visitor from a foreign country should not give advice or express an opinion regarding domestic policies such as labor and prices. But he may point out two things. Which commodities are, or can be, produced abroad and imported to the advantage of the domestic consumer, should be determined. Only if imports are increased, and exports against payment not overexpanded can the international clearing problems of the United States be solved. In some respects the situation in this country can be compared to that in Switzerland. There officials and business men are paying due attention to this question. Secondly, it is strongly advisable to draw up a completely balanced budget without further delay. This can be considered as achieved only if the amortization of the war debt is actually accomplished within a reasonable period.

It is possible that a real revolution in the sphere of currency and state finances need not take place in the United States, nor in the British Commonwealth. On the European Continent the situation is entirely different. There, at best, the countries like Switzerland, Sweden and Portugal that remained neutral during the war, may be able to avoid such a reconstruction. The currency and state finances of all the countries that participated in the war, however, are in such bad, often chaotic condition that a financial recovery in all domains of economy is inconceivable without the most drastic and incisive measures.

Financial Developments Between the Wars

In this respect the developments between the two World Wars are very instructive. Even countries like France, Belgium and Italy that were victorious were unable to restore order in their household. A visible evidence of this was the chronic weakness of the currencies. Devaluations that were repeatedly undertaken during this period brought about temporary improvement but were unable to eliminate the evil itself. The dollar devaluation of 1933 was another story. The government enforced it of its own free will, not being compelled by circumstances. The American devaluation was like an appendix operation carried out as a precaution before starting out on a long journey, whereas European devaluations are comparable to the same operation when it has become unavoidable because the patient's life is in danger.

The German and Austrian Inflations

The countries, that were defeated in World War I, especially Germany and Austria, had to go through a total inflation and were eventually forced to reorganize their currencies on an absolutely new basis. In Germany this reorganization took place in the late fall of 1923. The original mark was first replaced by the "Rentenmark" and that in turn by the "Reichsmark". The original paper mark was exchanged at the rate of 1,000 billion paper marks to one new mark. The new currency, of which only a small percentage was covered by gold, immediately won the confidence of the masses, that was not shaken even when the quotation of the "Reichsmark" temporarily showed a discount abroad. This confidence in the "Rentenmark" was based primarily on the fact that the circulation was restricted right from the start. The circulation of Rentenbank notes had been legally limited to 2.4 billion marks. This amount was decidedly inadequate. Simultaneously bank credits were restricted to the utmost. The result was a deflation of an unjustifiable extent which incidentally caused an intolerable rise in the rates of interest. For short-term loans, interest up to 80% per annum had to be granted in 1924 while, for years, fixed interest-bearing securities were selling at a yield of 7-8%. To put it bluntly, the Reichsbank that was headed by Dr. Schacht at that time believed that it had to replace the lacking gold cover by deflation. Germany's normal currency requirements at that time were about five billion marks. This amount was not reached until three years after the stabilization of 1923. It corresponds exactly to the currency in circulation before World War I, considering that bank notes had to take the place of a corresponding amount of gold. Thus, in the case of future restoration of the continental currencies, any country that had a real "gold period" before 1914 should be able to calculate from it within which limits the note circulation should be fixed.

The German currency recovery has taught that even countries that have little or no gold can, if they limit their circulation, re-establish their currency unassailably in a fixed relation to gold provided the indispensable pre-conditions are satisfied, namely, equilibrium of the international balance of payments and order in the national household.

If these German experiences are

kept in mind it should not be too difficult to adopt the right middle course between an economically inadvisable creation of money and credit on the one hand and unjustifiable deflationary measures on the other. Again it is a self-evident pre-condition that the interest rate must be at a reasonable level. Excessively low money rates are as undesirable as excessively high ones. The proper rate will probably be 3 to 5 per cent, according to the situation of the country.

It is also most instructive to study the reconstruction of the public debt in Germany after World War I. In 1914, before the outbreak of the war, it totalled about 40 billion gold marks. By the beginning of the inflation period it had increased to approximately 160 billion gold marks. After the reorganization of the currency in 1924 it was fixed at approximately 10 billion gold marks. This amount did not suffice, and certainly did not satisfy the urgent social requirements that are caused by such a reconstruction. It would have been fair and bearable if the national debt had been fixed at a minimum of the pre-war total of 40 billion marks. Possibly it could have been raised to 60 billion marks. In this way one could have avoided the complete improverishment of the middle income groups that were to a great extent the backbone of stable and sound conditions. Their disappearance was in great measure responsible for an extreme movement like the National Socialist Party coming into power.

"The Conflict Between the Generations"

But also the countries that can hope to restore order in their finances without actual reconstruction, should not overlook the fact that if in the course of the war their public debt has risen to such an extent that interest on it and its amortization can be paid only with the help of taxes that immoderately impede the accumulation of new fortunes, something will consciously or unconsciously ensue that one could call the "Conflict between the generations." The old generation will be inclined to demand that no change be made in the nominal amount of the public debt on which the product of their life's work and their savings depend. It will prefer to put up with a slow decay of the currency because an inflation, though veiled, is still more likely to make possible the maintenance of their former standards of living than a reconstruction of the public debt with all its consequences. Nor will the young generation at first oppose an inflation because during it money can be earned relatively easily. That was the mentality in Germany during the inflation period after World War I. The young generation is not interested in preserving old fortunes; even prospects of inheritances do not affect this much. If it is vigorous it will prefer to acquire a fortune by its own efforts. Very soon this will be accompanied by a wish to leave it unimpaired to its own children. As soon as the young generation becomes fully aware of the problems indicated here, it will fight for the termination of inflationary measures as well as against excessively high taxation. Taxes to which every one submits without ado during a war will seem intolerable very soon after it. An income tax that takes away more than 25-30% in the highest bracket will prove unbearable. Ultimately the conflict between the generations will end with a victory of the young generation. The financial leaders of all countries might as well realize this.

The Aspects of Continental Reconstruction

In connection with the reconstruction necessary on the European Continent the following aspects should be mentioned:

(1) As it is beyond doubt that a new financial order will be necessary in all the continental countries that participated in the war there should be no further discussion of the principle, but merely a decision as to the moment for action. In order to ensure success the acute shortage that has been caused by the war must first be eliminated. This is one indispensable pre-condition for the disappearance of the black markets. The other — and this may not be overlooked is the creation of a new sound currency. The favorable psychological influence exerted by monetary stability will be the stronger the sooner it can be connected with the disappearance of the shortage. The determination of the time for reconstruction is furthermore dependent on peace and quiet within the country. It is also indispensable that there be no international tensions threatening when the solution of these vital problems is taken in hand.

It is not probable that the individual continental countries will undertake their reconstruction separately. An extensive co-operation will be imperative. More will be said of this later.

(2) Though the currencies all over the world have emancipated themselves from gold in the course of the last few years, a long-term value of the yellow metal has not diminished but very visibly increased. It is inconceivable that future currency restorations will have any permanency if they are not accomplished on the basis of a fixed and unalterable relation to gold.

On the other hand, no country will be able to afford the luxury of keeping gold in circulation. In what form it is to support the circulation is beyond the scope of this article.

If gold is divested of the function it performed in the sphere of domestic economy in every country, the part it is called upon to play in international trade and clearing is in no way affected. An "Ersatz" for gold that could level out the excess in the balance of payments has not yet been found. When a country possesses or accumulates gold reserves in excess of its actual requirements for trade and clearing, this heightens its economic esteem in the international sphere. The reasons for this are obvious.

After a reasonable adjustment and restriction of the currency in circulation and of credit, the value of the currency as such will depend on an ordered international balance of payments. The trend of capital movements will be very important in determining the ratio of imports to exports. Government planning will probably be indispensable in this connection for years to come.

(3) In view of the numerous currency restorations that will be necessary on the European Continent it would be very inexpedient if each country proceeded independently. Never in the past has there been such an opportunity to create the pre-condition for an international collaboration in the currency domain. Such a cooperation could now be prepared by a uniform relation of the Western European currencies to gold, whereas the time has not yet come to form currency unions. The "lighter" this uniform parity is, that is, the lower the gold value the currency unit represents, the better. In this respect the old Reichsmark was already too "heavy," not to speak of the U. S. A. dollar. A return to the old gold franc could be considered as established by the law of the 7th of Germinal XI (March 28, 1803) or the parity of the Swiss franc chosen as determined after the devaluation of 1936.

(4) It is conceivable that the question of a currency restoration on the continent may become actual overnight. As to the question as to which country would become the leader in this case one finds, without reflection, that France ranks foremost. The clarification of domestic politics and the formation of a strong government would of course be a pre-condition. Economically France is cut out for the role of financial leader on the Continent. When once its stocks of raw materials are replenished it should have no difficulty in maintaining the equilibrium of its trade balance. With the exception of a few raw materials like rubber and copper, France can cover almost its entire import demand from its colonies while its important export products have special French or Parisian features that make them to a great extent independent of fluctuations on the market. The weakness of the French currency in the twenties and thirties could always be traced more to the passive state of the capital movement than of trade in merchandise. If France renounces its aspirations in connection with its foreign policy and especially regarding the Continent, that can only spell her future disaster and, instead, takes over the financial leadership for which it seems qualified, this will be its surest way to maintain or rather regain its position as a great power.

Open and veiled inflation goes the way of least resistance; it can never have a constructive effect. After serious economic or political convulsions it may seem beneficial for a short transition period. But after that only clear, clean, "old-fashioned" principles can lead a nation and its economy to new, lasting prosperity. "No expenditure without cover" must be the highest principle for the individual as well as for the government.

There is a story of a zealous barber who one day put up a notice in his store: "Tomorrow shaving free." When on the day following this announcement a crowd of customers blocked the traffic in front of the store the notice had not yet been removed. When his customers wanted to be served without paying the sly barber pointed to the notice and said, "Tomorrow." The nations have still a very short time for adjustment. Then they will demand categorically — "Not tomorrow! Today!"

Chilson Resumes Duties; Finkle Added to Staff

KINGSTON, N. Y.—George L. Chilson, recently released from the Armed Forces, has returned to his former association with Chilson, Newbery & Company, Inc., 48 Main Street.

Harold E. Finkle, recently released from the Army, is now associated with the Sales Department of the company.

Edward Greeff Returns to Adams & Peck

Edward R. Greeff has been released from active duty as a lieutenant commander in the U. S. Naval Reserve and has resumed his position with Adams & Peck, 63 Wall Street, New York City.

Leigh With Prosser

J. Roy Prosser & Co., 52 William Street, New York City, announce that Douglas B. Leigh has become associated with them in their Sales Department.

Sedgwick With Tripp & Co.

Robert B. Sedgwick, recently returned from active duty with the A.U.S., is now associated with Tripp & Co., Inc., 40 Wall Street, New York City, in their sales department.

Securities Salesman's Corner

By JOHN DUTTON

Dealers today should be thinking about methods of keeping their clientele in the event of a repetition of conditions which transpired in the securities markets in 1929. There is no assurance that a disastrous deflation in security prices will soon take place on any such scale as that which happened in 1929. Yet the public is forcing prices of many highly dubious common stocks up to point where real values are certainly out of line with any semblance of reality. Such stocks (many recently in the penny class) are the usual bait for the uninformed speculator.

Along with the naive amateur speculator who has recently made his appearance in the security markets, there is also a large percentage of old-time security buyers who are also beginning to throw fundamentals overboard, and they too are looking longingly for the will-of-the-wisp of quick profits. These are the people who have been the backbone of every dealer's clientele during the past ten years. They were security buyers before the present crop of suckers ever heard of Commonwealth & Southern warrants.

Now these regular customers are the ones with whom you should sit down and have a real heart to heart talk. If you see some of them beginning to jump over the traces—why not get them back on the track of common sense, and of sound and tried principles. "REMEMBER IT'S NOT THE PAPER PROFITS YOU HAVE TODAY THAT COUNT; IT'S WHERE YOU ARE GOING TO BE WHEN THIS PARTY IS OVER THAT'S OF PARAMOUNT IMPORTANCE." This theme could be the subject matter of a series of well written letters that could be sent to all your better customers.

These letters should be written in an impersonal style. They should not preach. They should cover general subjects such as the dangers of overlooking real values in the quest of quick profits. They should contrast the inadvisability of acquiring investments that are adversely vulnerable to sudden changes in the economic outlook, with other securities that have the earning power, future possibilities, and general stability to warrant present prices.

These letters should stress the firm's convictions along the lines of sound investment procedure. They should build good will because people who make the best customers are the ones who will appreciate candid honesty—no matter where they see it expressed.

The public agencies can do little to protect the real investor—they can do less to protect the fool and his money. But the responsible security firms of this country can do more to help control the avariciousness, and the greed of that portion of the public which is only interested in gambling, than all the agencies of the government combined.

Those of us who are in the security business today can back up our knowledge and experience with a higher form of idealism than ever came about through legislation. We know *this business.* Ours is a difficult profession. We are realists and we know that the job of forecasting future events is based upon something more intangible than almost any other field of human activity. We can translate our experience into actions that show the way to a better understanding of the economic system in which we live. One of the basic laws of that system is that "YOU CAN'T GET ANYTHING FOR NOTHING".

Let's tell our customers these basic facts—let's try and keep our little part of the world in which we live as clear of bunkum, hokum and ignorant wish-fulfillment, as is within our power. By so doing we will do all that is possible to keep our customers, even though the cyclone of inflation and a warped economic system may eventually blow most of them away. If several years from now we have lost the battle, we will at least have maintained our self respect. With that intact we usually can build anew.

Needed: A New Labor Policy

(Continued from first page)

You all know that Congress is full of bills today—extreme bills and moderate bills, short bills and lengthy ones. The extreme bills carry what people describe as compulsory features. They want to end our present difficulties by compelling somebody or other to do something that they seem disinclined to do and there appear to be a lot of people in the United States in that frame of mind today.

Other bills, the moderate ones, want to set up some kind of machinery, fact-finding machinery. We are already full of machinery which we have been multiplying at a pretty rapid rate in the last 10 or 15 years and the great problem in this country seems to me to be to absorb that machinery and digest it, assuming we want to retain it. I am no believer in magical solutions of this labor problem of ours. I don't think it lends itself to that kind of treatment and even if it appeared to lend itself to that kind of treatment, I doubt the wisdom of that sort of solution and the reasons for my opinion are twofold. I don't think compulsory legislation will work.

Lawlessness in Labor Relations

We have tended, I think, and everybody realizes, to become more lawless in labor relations. We have become more lawless in spite of the fact that we passed and adopted a statute in 1935 whose primary objective it was to reduce labor relations to peaceful negotiations, peaceful and rational negotiations, and yet since 1935 we have become increasingly lawless. People who approach these issues in a lawless frame of mind are not going to submit by and large to compulsion, and if we are to deal with this problem of lawlessness—and I mean to come back to it later—we have got to take a longer range point of view.

The second, and I think the major difficulty about compulsion, is when you start compelling one party to do something, you compel everybody. Compulsion isn't anything that can be limited or held within a narrow area or sphere and we know the history of something approximating compulsion in the so-called public utility industry. Once you begin to set up machinery that compels a certain type of adjustment of labor disputes in the industry, then you open the way for thoroughgoing, complete regulation of all business activities, all business decisions, and I think the greatest danger about this compulsory legislation, these proposed compulsory statutes, is if they are enacted, if they come into effect, then private competitive business in this country better begin to prepare itself for continuing and growing regulation of all of its operations and all of its business decisions.

Poor Laws Worst Than None at All

I regard that as much the worse of these two evils. If we are not going to compel, and I am not only skeptical about compulsion but enacting any kind of law at the moment simply because we are not ready for a law, and poor laws are worse than no laws at all, then what is it we ought to do? That isn't an easy question to answer. It is like inflation. You see the problem. You see an inflationary movement unfolding itself and about all there is left for you to do is argue about it and say certain things would lead to further inflation which promoted and encouraged ought to be stopped, ought to be brought under control of some form or another, and the labor problem is this sort of a problem.

We have got to think our way through and we have got to think our way through it in public. This problem has grown so big we can't afford any longer to limit its discussion to private meetings. I think it is the greatest public issue of the United States. The decisions we make in labor policy now, I believe, transcend in importance or equal in importance the most fundamental decisions that we make as to taxation, as to public debt, as to prices, and they are inextricably intertwined. You can't separate them any longer, so I believe what we have got to address ourselves to is this highly difficult question, highly difficult undertaking, of trying to bring to the surface two things about our labor problem which need to be remedied if we propose in the future to deal with it sensibly and constructively.

The one question is our labor policy, our labor economic policy. What has this policy been? Where is it leading us? What do we need to do with this policy in order to reduce it to workable terms? The second question is our policy as to law and administration in the whole field of labor relations, and I want to talk briefly about these two aspects of the question.

Our Labor Policy

Now let's take our labor policy, which after all reduces itself to a policy of wages. The American public policy toward wages. We now have a public policy toward wages, good or bad, workable or unworkable. It is a mistake to think this policy originated in August or after the war or during the war. It is a policy we have been flirting with since 1933 and through the passage of these 12 or 13 years since 1933 our Federal administration, at any rate, seems to have made up its mind that this policy is correct. Let's look at this policy and see what it is and what it has accomplished through its various phases because we used it from 1933 to 1939. In a modified form we used it again from 1939 to 1945 and now we are using it once more in a totally different setting. Without going into technicalities and appealing to the authority like John M. Keynes and other people in this country who happen to be his followers, you can explain this policy pretty easily. The parts of it amount to this.

One part is that the wage rate is the moving force in the economic system. If you want to regulate the economic system, you regulate it at the point of wage rate. You raise or keep stable or reduce the wage rate, depending on what you want to happen in your economic system. The second part of this doctrine, view, belief, theory, whatever you want to call it, is that determination of the wage rate determines this vague thing called purchasing power, or total expenditure, consumer expenditure, which has come to occupy a part in the economic system nobody ever knew it occupied before.

The third part—and this at the present time is the most important part of this prevailing doctrine, very widely accepted in this country and in England—is that there somehow or other is an independence, a separation between wages and prices. That is the doctrine that seems to motivate Mr. Bowles, for example, and many of our influential public officials at this time. If you look at that doctrine, you can see we have been applying it. We applied it when we wrestled in another form or under another name with the question of full employment from 1933 to 1939. We didn't call it full employment then, but better employment and an approximation to a condition under which the available labor supply came to be absorbed into employment, and in that theory, rather in that period this theory evolved, and I doubt that there are very many people in this room, much less in the general public of the United States, who realize the degree to which we adopted that policy of wage rate fixing from 1933 to 1939. We stepped wages up at a very rapid rate during that period and also invoked the related device of spending Government money. From 1933 to 1939 we spent in cool billions an amount about equal, if not in excess, of what we spent to finance World War I.

I don't know how you gauge results in economics. There isn't any arithmetic of the kind Walter Reuther talks about to which you can appeal to help you make up your mind whether a policy works or not. The only standard you have is the common sense standard. You look back over a period and say, "This was our theory. We put it into effect and exploited it or didn't." I don't think any reasonable man can look at the period 1933 to 1939 and say that we did not fully exploit these doctrines of purchasing power, and we know what the record shows. The record is a bad record. Fifteen per cent of our population was unemployed, not at the depth of the depression, not at the depth of a world-wide, extraordinarily severe depression, but at the peak of a business recovery. That was a unique phenomenon in the United States, one we never encountered before so far as we know when we were proceeding along lines quite different from those which we pursued when we adopted these theories.

The "Little Steel" Formula

So, on the evidence, by any common sense standards that we have, the record would seem to prove to reasonable men that that sort of thing doesn't work. During the war we passed to another phase where again we were concerned about inflationary pressures and argued out the inflationary phenomenon and during the war we made two decisions. I am not talking about whether they were well administered, but I am talking of the system of ideas, and we decided during the war that inflation is promoted by these forces: one, a great increase in income, expendable income, and in the face of a great shortage of goods. That, we said—and I think correctly—would lift prices and continue to lift them unless something was done about it, and, secondly, forces which tended constantly to raise costs of doing business, costs of production would be added to this first force and encourage inflationary rises in prices at a faster rate.

That is the view we held during the war, putting aside whether we administered it properly or not, and we were holding that view in 1941 when prices began to go out. Prices are misleading and deceptive unless you watch them very carefully. When prices went up month after month, and the cost of living, everybody got disturbed, and at that time we conceived the Little Steel Formula, and that was an admission that in order to regulate prices you have got to regulate the principal items of cost. It was a public admission, and everybody agreed to it because it seemed to be one of those simple economic truths which we retained anyhow until the middle of 1945.

The Post-war Policy Unworkable

Now when the war was over we had to decide upon an economic policy, a labor economic policy, and that decision was made and made wrongly in the middle of 1945. Let's see what it was. That decision rested first upon conflicting notions, and they are still in the atmosphere. The most important conflicting notion was that the United States faced both inflation and deflation. If you face both inflation and deflation, it is going to be awfully hard to make a policy, and it is difficult to see which prospect weighed more heavily in the minds of the policymakers.

Because of that conflict of view, conflict of opinion, and because of political forces, very powerful political forces, we had really begun to augment them all during the war, the Administration issued its statement of policy, and it was to this effect.

Wages could and should be substantially raised, and that wages could and should be substantially raised without the country's undergoing the necessity of at the same time raising prices, and that is the theory we embarked on in the middle of 1945. It obviously was doomed to failure. It was doomed to failure because it is unworkable and because it is incorrect and sometime or other we are not going to get out of these present labor difficulties unless we revise or change our underlying economic labor policy and arrive at the correct policy. We have to make up our minds about a very difficult thing and make up our minds whether we want to continue a wholesale control of prices, and I haven't time to talk about that, but if we decide we wish to continue that, then we have got to make the decision that we will have to control major items of cost at the same time. We won't successfully control one without the other, assuming it is desirable to continue a wholesale control of prices.

The "Ability to Pay" Problem

It was inevitable the Administration should get into difficulty and having started with a simple idea, it got itself involved in all sorts of related and more complex ideas, the idea of capacity to pay, and things of that kind, and as always happens, political agencies adapt their views to the times. They feel one way about a doctrine one day when the doctrine does so and so to their clients, and another way about a doctrine today when the doctrine has another effect. Take the doctrine of capacity to pay, which General Motors tried to fight out with the UAW and the Garrison Fact-Finding Board and the Administration. The Administration seemed to think capacity to pay was a good system before they threw it out of the window. There are classic cases in the Government records about their views.

Take, for example, a plant in Plattsburg, a great industrial center of New York State, the Pal Razor Blade Company. It was organized by the Machinists' Union during the war when Governmental authorities had not projected themselves into the post-war period and tried to imagine what a capacity to pay theory would look like. The Machinists' Union asked the Pal Razor Blade Company for a 10-cent an hour increase in wages, and they offered five cents, one of these typical American puzzles incapable of solution—the difference between five and 10 cents an hour. Then it went to the War Labor Board in New York and they wrestled with this conundrum for about eight or nine months and then after they had wrestled with it came out with this kind of decision, a perfectly unthinkable decision. They said the increase should be 16 cents an hour, an increase nobody had asked for, but the ways of these policymaking agencies are mysterious, you know.

Here was the Pal Razor Blade Company, a small business of the type the United States Government wanted to help all these years, and they didn't know what to do about it, and said, "All right. We accept the 16 cents, but we can't agree to paying retroactive pay back in the amount of 16 cents an hour to some point in early 1942 because the decision carries a back-pay provision, as well." That stayed then with the National War Labor Board, and the experts there finally made a decision both as to the 16 cents and retroactive pay, and the decision was the United States Government—and they were the spokesmen for the United States Government—is not concerned with capacity to pay. The United States Government has a policy of wage-fixing, and that policy of wage-fixing transcends any other fact or condition, so that the Pal Razor Blade Company, one of our small businesses, had to make that adjustment, and that is going to be the fact with all these wage theories and policies which are bandied back and forth.

The Fallacy of Interference in Collective Bargaining

One of the difficulties with the general theory which we have evolved is it hasn't worked and has precipitated strikes. When the wage movement got under way sometime last summer and came to a focus in the fall, we had in this country in most of these industries some of the easiest wage disputes there ever were presented in this country. They could have been settled and settled in moderate terms, and settled by the two parties themselves if there had not been outside interference but you can't settle any contract or you can't bring any difficult negotiations to termination if one of the parties is led to believe in the course of negotiations if he doesn't settle and waits around and does something spectacular, he can appeal to an agency somewhere that will give him a better deal. That is what happened in this country.

Why should anybody sell or settle for 15, 12 or 13 cents if he has it back in his mind if he waited long enough he could make a better settlement, not with his employer or the party he is accustomed to bargain with, but with some official somewhere else? We have come to grips and have to explain and explore, argue, publicize these problems of underlying labor economic policies. We have either had no clean-cut, clear labor economic policies or those we have had are unworkable. If I can read between the lines in the reports that appeared in the newspapers in the last couple of days that fact is beginning to dawn on the Administration.

A Wage Policy Revision Under Way

Some kind of general revision of the wage policy of this country is under way. I am not optimistic and sanguine as to what it will be. I am afraid it will be a fancy thing nobody will understand, but one thing is clear from what comes out of the reports in Washington, and that is that there is now a general understanding in Washington that the policy they had is an unworkable policy and unworkable in a great number of different directions, which I can't talk about now for lack of time.

The Wagner Act

The second difficulty, an underlying one, is our political and legislative policies. Unless we come to grips with these political and legislative policies we are going to have a period of labor trouble and not a short period; but a prolonged period of labor trouble in which things get settled and then break out again, and nobody quite knows what the issues will be. When you have a situation of this kind you court labor trouble and invite it.

Let me say a word about the policies. You all know that the great basic labor statute in this country which governs labor relations, and has for the last 12 years, is the Wagner Act. Now, the Wagner Act, I should say, was a popular Act. It won public opinion and popular support. Its principal aim was to redress a lack of balance which great numbers of people thought existed between labor on one side and industry, and the Wagner Act went into effect in 1935. Whatever the terms of the Act, I don't think there is any piece of legislation on the statute books in the United States which has been so poorly, so arbitrarily administered as the Wagner Act has. As long as that situation prevails, you can amend the Wagner Act, you can rewrite it or write new laws, and we will not drag ourselves out of these difficulties, and that is the principal problem of the Wagner Act.

Let me tell you what you can do under the Act by way of illustration. The Wagner Act makes it possible for Government officials to organize unions, a wholly new function. That is quite different from the Government passing a statute administering it, which removes disabilities from one or the other party on labor relations or both parties, but this goes farther and makes the Government an organizing agency, puts the Government into a position where it says to a group of employees. "We don't like your staying out of a union. We think you ought to join this one," or if they joined one the Government is put in a position and exercises the power and influence by saying, "We don't like the union you are in. We are going to force you to join another."

Here is an illustration. There is a big plant in Cleveland, and a well-conducted business of its kind—good working conditions and rates of pay, all of which are irrelevant to our labor relations today. Our aims are in some other direction. This is the Thompson Products Company, a well-known plant. It has been in litigation from the beginning of time, which is 1935. What is the litigation about? It is a very simple human relationship.

Thompson Products employed a given number of people. It is one of these large-numbered medium-sized firms in the country, and organizers went forth, sallied forth to bring these people into the UAW, CIO, a well-known deliberative organization, having today something like a million members in control over a large segment of American industry. They weren't successful in their organizing activities and that today has become in the nature of a crime. Not to be successful in organizing activities is one of the high crimes of American law. Anyway, they persisted in the thing and in one of their campaigns the President of Thompson Products, Mr. Crawford, thought it was within his rights to counsel with his employees: that is, he said in substance to himself, "If an outsider comes in and tells my employees what is good for them, I, knowing much more about this business and status of the employees, have the right to tell them what I think."

That raised an uproar and finally the National Labor Relations Board invoked the democratic instrument it has at its disposal and called an election, and the UAW, CIO, was defeated in a secret ballot.

That was a second crime, and it promptly lodged a complaint with the National Labor Relations Board saying it was an unfair election. It obviously is an unfair election if the union is defeated, so the NLRB pondered it for a number of months and issued a statement it was unfair because the President said something about unions and the company and himself, so the National Labor Relations Board ordered a second election, and then they had the second election after a period of time during which electioneering was carried on.

The President spoke to his employees, and the union was again defeated. This made the situation even more unfair than it had been after the first defeat. This multiplication of defeats is simply something no one can possibly accept in a democratic country, so it again complained, and this time the NLRB went further and tried to stop Mr. Crawford from talking. Finally, there was a decision from the U. S. Supreme Court which said you have got a right to talk, some right to talk to your employees and tell them what you think about things, and the right to talk is not limited to the representatives of one side of this very heated and difficult controversy.

Anyhow, Mr. Crawford went to one U. S. Court and they reversed the decision of a lower court, and he talked again, and again in a third election the union was defeated. If anybody thinks that ends that episode, he is wrong. I am willing to wager that election is going to be declared an unfair election and there are going to be a series of them. Good as elections are and as much as Americans like to vote, they get tired out by them after awhile, and pretty soon let the union win to be rid of elections.

Western Electric had an independent union, and the United Electrical and Radio Workers of the CIO wanted those members. I don't blame them. It is a valuable property, and in a competitive system you have a right to bid for a property, which is what this is. Stripped of all its language, it is a bidding for property. One of our most successful bidders is John L. Lewis. He bids for properties. It doesn't make a difference whether you call it labor property. It is a property, all right.

They started to bid in Kearney and Sparrows Point, Baltimore, and when you don't get anywhere in open bidding you go to Washington and say you have been unfairly treated, and the United Electric and Radio Workers went to Washington and made a complaint before the NLRB, and they pondered that and found something in the history of the Western Electric independent union that justified, in its own mind, that it was an unfair union; a company dominated union, and declared it disestablished, which means putting it out of business, destroying it because it was company dominated. What they meant was that they didn't like it and thought people ought to join something else.

No Peace Under Wagner Act

That is our second difficulty. You can't administer labor law this way in the United States and have peace. There can be no peace under these arrangements. We have had an enormous growth of the trade union movement in this country from something like two million to twelve or thirteen, and nobody knows the figure. They penetrated into all the basic industries and all kinds of occupations, but it is still a country in which the relations of labor to union is in a fluid state. Lots of people are unorganized, and not free in their minds as to where they stand or what they want. Now, as long as the Government continues to administer the basic labor law of this country in these terms, we are in for trouble. Common sense tells us that under those circumstances, we have got to remedy that; this making of a fundamental labor economic wage policy and this putting our legislative, political policy toward labor in order, isn't anything we are going to do overnight, nothing we are going to do overnight. We are not going to settle this question or even approximate the handling of it by hasty legislation drawn up with some little specific end in view.

Review Our Labor Policy

We have got to review our labor policy, the policy of the Federal Government toward labor on a lot of fronts. Let me mention one and then I am through. Nobody any longer under the labor law of this country, with very few exceptions, undertakes to enforce the law. We have no standards of force any more in this country in labor relations. If a group of unions decide to pull down a city, as they did in Stamford, and are threatening to do in New York on Monday, and pull out people with no grievance under collective contracts with their employees and pull out a city, if they decide to make a building or a plant or a mill or a mine inaccessible, they do it, and there is no authority to call them for it.

We have reached a lawless state and Government is a party to it. This thing has got to be discussed. The facts have got to be brought out and the thing for Congress to do is set up a joint Congressional committee of good people, able men, and give them six months, or a year to address themselves to this American labor problem which, in my judgment, is a continuing problem. I don't think any of the present settlements settle the future of American labor relations.

They are likely to get worse rather than better, so there will come periods of quiet, but when we talk about devising a furnished labor policy for this country by statute and administrative orders and regulations, we are talking about something which is important for the future of the economic system of the United States as we talked about when the Congressional committees for a number of years studied the American banking system and out of that seems to have devised the Federal Reserve System. This is the same kind of problem. It is a basic fundamental issue in American life, and we have to do something about it and know what we are about, and the only way to find out and draft satisfactory legislation is to have a responsible legislative committee of both houses of Congress put their minds to this thing and stop worrying about this present wave of strikes, which somehow or other is going to be settled.

Broker-Dealer Application Rejected by SEC

The application of Alexander Smith, of Devault, Pa., for qualified registration as a broker and dealer under the Securities Exchage Act, has been rejected by the Securities and Exchange Commission. The application, if granted, would have limited Mr. Smith to dealing in securities with other registered securities dealers, banks, insurance companies, corporations, and other financial institutions.

The Commission found that during a period under survey by its staff the applicant, in his dealings with customers showed "wanton disregard of his responsibilities," charged "exorbitant variations from prevailing market prices," and made "unconscionable profits."

Richard Shillinglaw Dead

Richard Shillinglaw, President of R. A. Shillinglaw & Co., Nashville, Tenn., died in a Boston Hospital after an illness of several weeks. He was 53 years old. Mr. Shillinglaw organized the American National Co. in Nashville in 1920, one of the earliest investment banking houses in the South.

Trading on Amsterdam Stock Exchange Revives Slowly

Measures Taken to Assure Bona Fide Ownership of Securities in all Transactions. Brokers to Accept No New or Unknown Customers and No Free Money to Be Used for Trade in Old Securities in Order Not to Drain Capital From Reconstruction.

When the Netherlands Government early this year permitted the reopening of the Amsterdam Stock Exchange and the resumption of trade in securities, the decision was made only after the Association for the Trade in Securities had declared its willingness to hold itself responsible for all transactions. A fund of 400,000 guilders was raised by the Association to underwrite all losses resulting from illegal sales.

Each member of the Stock Exchange must guarantee the bona fide ownership of each security placed into his hands by his customer. If it appears that the security sold through his services, belongs to a previous owner and was not bought through regular stock exchange channels, the Association refunds the sales price and in turn claims the amount paid from the member of the Stock Exchange.

Amsterdam stock brokers have also formed a new association. One of its conditions of membership is that each candidate must also be a member of the Association for the Trade in Securities. Brokers refuse for the time being to accept new customers and do not accept orders from unknown persons.

Regulations issued by the Netherlands Ministry of Finance limit stock exchange transactions to the sale of interior bonds and mortgages, while payment for these may be made only from one blocked account into another. No free money may be used for trade in old securities as it is essential that these free funds be applied to new capitalization and reconstruction.

In order to promote investment of free money, the government is issuing negotiable savings certificates bearing 2½% interest. As a further inducement, these savings certificates may be used for payment of special tax levies and inheritance taxes. Moreover, the certificates may be purchased out of blocked funds, up to an amount of 300 guilders.

Needed: A New Labor Policy

(Continued from first page)

You all know that Congress is full of bills today—extreme bills and moderate bills, short bills and lengthy ones. The extreme bills carry what people describe as compulsory features. They want to end our present difficulties by compelling somebody or other to do something that they seem disinclined to do and there appear to be a lot of people in the United States in that frame of mind today.

Other bills, the moderate ones, want to set up some kind of machinery, fact-finding machinery. We are already full of machinery which we have been multiplying at a pretty rapid rate in the last 10 or 15 years and the great problem in this country seems to me to be to absorb that machinery and digest it, assuming we want to retain it. I am no believer in magical solutions of this labor problem of ours. I don't think it lends itself to that kind of treatment and even if it appeared to lend itself to that kind of treatment, I doubt the wisdom of that sort of solution and the reasons for my opinion are twofold. I don't think compulsory legislation will work.

Lawlessness in Labor Relations

We have tended, I think, and everybody realizes, to become more lawless in labor relations. We have become more lawless in spite of the fact that we passed and adopted a statute in 1935 whose primary objective it was to reduce labor relations to peaceful negotiations, peaceful and rational negotiations, and yet since 1935 we have become increasingly lawless. People who approach these issues in a lawless frame of mind are not going to submit by and large to compulsion, and if we are to deal with this problem of lawlessness—and I mean to come back to it later—we have got to take a longer range point of view.

The second, and I think the major difficulty about compulsion, is when you start compelling one party to do something, you compel everybody. Compulsion isn't anything that can be limited or held within a narrow area or sphere and we know the history of something approximating compulsion in the so-called public utility industry. Once you begin to set up machinery that compels a certain type of adjustment of labor disputes in the industry, then you open the way for thoroughgoing, complete regulation of all business activities, all business decisions, and I think the greatest danger about this compulsory legislation, these proposed compulsory statutes, is if they are enacted, if they come into effect, then private competitive business in this country better begin to prepare itself for continuing and growing regulation of all of its operations and all of its business decisions.

Poor Laws Worst Than None at All

I regard that as much the worse of these two evils. If we are not going to compel, and I am not only skeptical about compulsion but enacting any kind of law at the moment simply because we are not ready for a law, and poor laws are worse than no laws at all, then what is it we ought to do? That isn't an easy question to answer. It is like inflation. You see the problem. You see an inflationary movement unfolding itself and about all there is left for you to do is argue about it and say certain things would lead to further inflation which promoted and encouraged ought to be stopped, ought to be brought under control of some form or another, and the labor problem is this sort of a problem.

We have got to think our way through and we have got to think our way through it in public. This problem has grown so big we can't afford any longer to limit its discussion to private meetings. I think it is the greatest public issue of the United States. The decisions we make in labor policy now, I believe, transcend in importance or equal in importance the most fundamental decisions that we make as to taxation, as to public debt, as to prices, and they are inextricably intertwined. You can't separate them any longer, so I believe what we have got to address ourselves to is this highly difficult question, highly difficult undertaking, of trying to bring to the surface two things about our labor problem which need to be remedied if we propose in the future to deal with it sensibly and constructively.

The one question is our labor policy, our labor economic policy. What has this policy been? Where is it leading us? What do we need to do with this policy in order to reduce it to workable terms? The second question is our policy as to law and administration in the whole field of labor relations, and I want to talk briefly about these two aspects of the question.

Our Labor Policy

Now let's take our labor policy, which after all reduces itself to a policy of wages. The American public policy toward wages. We now have a public policy toward wages, good or bad, workable or unworkable. It is a mistake to think this policy originated in August or after the war or during the war. It is a policy we have been flirting with since 1933 and through the passage of these 12 or 13 years since 1933 our Federal administration, at any rate, seems to have made up its mind that this policy is correct. Let's look at this policy and see what it is and what it has accomplished through its various phases because we used it from 1933 to 1939. In a modified form we used it again from 1939 to 1945 and now we are using it once more in a totally different setting. Without going into technicalities and appealing to the authority like John M. Keynes and other people in this country who happen to be his followers, you can explain this policy pretty easily. The parts of it amount to this.

One part is that the wage rate is the moving force in the economic system. If you want to regulate the economic system, you regulate it at the point of wage rate. You raise or keep stable or reduce the wage rate, depending on what you want to happen in your economic system. The second part of this doctrine, view, belief, theory, whatever you want to call it, is that determination of the wage rate determines this vague thing called purchasing power, or total expenditure, consumer expenditure, which has come to occupy a part in the economic system nobody ever knew it occupied before.

The third part—and this at the present time is the most important part of this prevailing doctrine, very widely accepted in this country and in England—is that there somehow or other is an independence, a separation between wages and prices. That is the doctrine that seems to motivate Mr. Bowles, for example, and many of our influential public officials at this time. If you look at that doctrine, you can see we have been applying it. We applied it when we wrestled in another form or under another name with the question of full employment from 1933 to 1939. We didn't call it full employment then, but better employment and an approximation to a condition under which the available labor supply came to be absorbed into employment, and in that theory, rather in that period this theory evolved, and I doubt that there are very many people in this room, much less in the general public of the United States, who realize the degree to which we adopted that policy of wage rate fixing from 1933 to 1939. We stepped wages up at a very rapid rate during that period and also invoked the related device of spending Government money. From 1933 to 1939 we spent in cool billions an amount about equal, if not in excess, of what we spent to finance World War I.

I don't know how you gauge results in economics. There isn't any arithmetic of the kind Walter Reuther talks about to which you can appeal to help you make up your mind whether a policy works or not. The only standard you have is the common sense standard. You look back over a period and say, "This was our theory. We put it into effect and exploited it or didn't." I don't think any reasonable man can look at the period 1933 to 1939 and say that we did not fully exploit these doctrines of purchasing power, and we know what the record shows. The record is a bad record. Fifteen per cent of our population was unemployed, not at the depth of the depression, not at the depth of a world-wide, extraordinarily severe depression, but at the peak of a business recovery. That was a unique phenomenon in the United States, one we never encountered before so far as we know when we were proceeding along lines quite different from those which we pursued when we adopted these theories.

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It was inevitable the Administration should get into difficulty and having started with a simple idea, it got itself involved in all sorts of related and more complex ideas, the idea of capacity to pay, and things of that kind, and as always happens, political agencies adapt their views to the times. They feel one way about a doctrine one day when the doctrine does so and so to their clients, and another way about a doctrine today when the doctrine has another effect. Take the doctrine of capacity to pay, which General Motors tried to fight out with the UAW and the Garrison Fact-Finding Board and the Administration. The Administration seemed to think capacity to pay was a good system before they threw it out of the window. There are classic cases in the Government records about their views.

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The Wagner Act

The second difficulty, an underlying one, is our political and legislative policies. Unless we come to grips with these political and legislative policies we are going to have a period of labor trouble and not a short period, but a prolonged period of labor trouble in which things get settled and then break out again, and nobody quite knows what the issues will be. When you have a situation of this kind you court labor trouble and invite it.

Let me say a word about the policies. You all know that the great basic labor statute in this country which governs labor relations, and has for the last 12 years, is the Wagner Act. Now, the Wagner Act, I should say, was a popular Act. It won public opinion and popular support. Its principal aim was to redress a lack of balance which great numbers of people thought existed between labor on one side and industry, and the Wagner Act went into effect in 1935. Whatever the terms of the Act, I don't think there is any piece of legislation on the statute books in the United States which has been so poorly, so arbitrarily administered as the Wagner Act has. As long as that situation prevails, you can amend the Wagner Act, you can rewrite it or write new laws, and we will not drag ourselves out of these difficulties, and that is the principal problem of the Wagner Act.

Let me tell you what you can do under the Act by way of illustration. The Wagner Act makes it possible for Government officials to organize unions, a wholly new function. That is quite different from the Government passing a statute administering it, which removes disabilities from one or the other party on labor relations or both parties, but this goes farther and makes the Government an organizing agency, puts the Government into a position where it says to a group of employees. "We don't like your staying out of a union. We think you ought to join this one," or if they joined one the Government is put in a position and exercises the power and influence by saying, "We don't like the union you are in. We are going to force you to join another."

Here is an illustration. There is a big plant in Cleveland, and a well-conducted business of its kind—good working conditions and rates of pay, all of which are irrelevant to our labor relations today. Our aims are in some other direction. This is the Thompson Products Company, a well-known plant. It has been in litigation from the beginning of time, which is 1935. What is the litigation about? It is a very simple human relationship.

Thompson Products employed a given number of people. It is one of these large-numbered medium-sized firms in the country, and organizers went forth, sallied forth to bring these people into the UAW, CIO, a well-known deliberative organization, having today something like a million members in control over a large segment of American industry. They weren't successful in their organizing activities and that today has become in the nature of a crime. Not to be successful in organizing activities is one of the high crimes of American law. Anyway, they persisted in the thing and in one of their campaigns the President of Thompson Products, Mr. Crawford, thought it was within his rights to counsel with his employees: that is, he said in substance to himself, "If an outsider comes in and tells my employees what is good for them, I, knowing much more about this business and status of the employees, have the right to tell them what I think."

That raised an uproar and finally the National Labor Relations Board invoked the democratic instrument it has at its disposal and called an election, and the UAW, CIO, was defeated in a secret ballot.

That was a second crime, and it promptly lodged a complaint with the National Labor Relations Board saying it was an unfair election. It obviously is an unfair election if the union is defeated, so the NLRB pondered it for a number of months and issued a statement it was unfair because the President said something about unions and the company and himself, so the National Labor Relations Board ordered a second election, and then they had the second election after a period of time during which electioneering was carried on.

The President spoke to his employees, and the union was again defeated. This made the situation even more unfair than it had been after the first defeat. This multiplication of defeats is simply something no one can possibly accept in a democratic country, so it again complained, and this time the NLRB went further and tried to stop Mr. Crawford from talking. Finally, there was a decision from the U. S. Supreme Court which said you have got a right to talk, some right to talk to your employees and tell them what you think about things, and the right to talk is not limited to the representatives of one side of this very heated and difficult controversy.

Anyhow, Mr. Crawford went to one U. S. Court and they reversed the decision of a lower court, and he talked again, and again in a third election the union was defeated. If anybody thinks that ends that episode, he is wrong. I am willing to wager that election is going to be declared an unfair election and there are going to be a series of them. Good as elections are and as much as Americans like to vote, they get tired out by them after awhile, and pretty soon let the union win to be rid of elections.

Western Electric had an independent union, and the United Electrical and Radio Workers of the CIO wanted those members. I don't blame them. It is a valuable property, and in a competitive system you have a right to bid for a property, which is what this is. Stripped of all its language, it is a bidding for property. One of our most successful bidders is John L. Lewis. He bids for properties. It doesn't make a difference whether you call it labor property. It is a property, all right.

They started to bid in Kearney and Sparrows Point, Baltimore, and when you don't get anywhere in open bidding you go to Washington and say you have been unfairly treated, and the United Electric and Radio Workers went to Washington and made a complaint before the NLRB, and they pondered that and found something in the history of the Western Electric independent union that justified, in its own mind, that it was an unfair union; a company dominated union, and declared it disestablished, which means putting it out of business, destroying it because it was company dominated. What they meant was that they didn't like it and thought people ought to join something else.

No Peace Under Wagner Act

That is our second difficulty. You can't administer labor law this way in the United States and have peace. There can be no peace under these arrangements. We have had an enormous growth of the trade union movement in this country from something like two million to twelve or thirteen, and nobody knows the figure. They penetrated into all the basic industries and all kinds of occupations, but it is still a country in which the relations of labor to union is in a fluid state. Lots of people are unorganized, and not free in their minds as to where they stand or what they want. Now, as long as the Government continues to administer the basic labor law of this country in these terms, we are in for trouble. Common sense tells us that under those circumstances, we have got to remedy that; this making of a fundamental labor economic wage policy and this putting our legislative, political policy toward labor in order, isn't anything we are going to do overnight, nothing we are going to do overnight. We are not going to settle this question or even approximate the handling of it by hasty legislation drawn up with some little specific end in view.

Review Our Labor Policy

We have got to review our labor policy, the policy of the Federal Government toward labor on a lot of fronts. Let me mention one and then I am through. Nobody any longer under the labor law of this country, with very few exceptions, undertakes to enforce the law. We have no standards of force any more in this country in labor relations. If a group of unions decide to pull down a city, as they did in Stamford, and are threatening to do in New York on Monday, and pull out people with no grievance under collective contracts with their employees and pull out a city, if they decide to make a building or a plant or a mill or a mine inaccessible, they do it, and there is no authority to call them for it.

We have reached a lawless state and Government is a party to it. This thing has got to be discussed. The facts have got to be brought out and the thing for Congress to do is set up a joint Congressional committee of good people, able men, and give them six months or a year to address themselves to this American labor problem which, in my judgment, is a continuing problem. I don't think any of the present settlements settle the future of American labor relations.

They are likely to get worse rather than better, so there will come periods of quiet, but when we talk about devising a furnished labor policy for this country by statute and administrative orders and regulations, we are talking about something which is important for the future of the economic system of the United States as we talked about when the Congressional committees for a number of years studied the American banking system and out of that seems to have devised the Federal Reserve System. This is the same kind of problem. It is a basic fundamental issue in American life, and we have to do something about it and know what we are about, and the only way to find out and draft satisfactory legislation is to have a responsible legislative committee of both houses of Congress put their minds to this thing and stop worrying about this present wave of strikes, which somehow or other is going to be settled.

Broker-Dealer Application Rejected by SEC

The application of Alexander Smith, of Devault, Pa., for qualified registration as a broker and dealer under the Securities Exchage Act, has been rejected by the Securities and Exchange Commission. The application, if granted, would have limited Mr. Smith to dealing in securities with other registered securities dealers, banks, insurance companies, corporations, and other financial institutions.

The Commission found that during a period under survey by its staff the applicant, in his dealings with customers showed "wanton disregard of his responsibilities," charged "exorbitant variations from prevailing market prices," and made "unconscionable profits."

Richard Shillinglaw Dead

Richard Shillinglaw, President of R. A. Shillinglaw & Co., Nashville, Tenn., died in a Boston Hospital after an illness of several weeks. He was 53 years old. Mr. Shillinglaw organized the American National Co. in Nashville in 1920, one of the earliest investment banking houses in the South.

Trading on Amsterdam Stock Exchange Revives Slowly

Measures Taken to Assure Bona Fide Ownership of Securities in all Transactions. Brokers to Accept No New or Unknown Customers and No Free Money to Be Used for Trade in Old Securities in Order Not to Drain Capital From Reconstruction.

When the Netherlands Government early this year permitted the reopening of the Amsterdam Stock Exchange and the resumption of trade in securities, the decision was made only after the Association for the Trade in Securities had declared its willingness to hold itself responsible for all transactions. A fund of 400,000 guilders was raised by the Association to underwrite all losses resulting from illegal sales.

Each member of the Stock Exchange must guarantee the bona fide ownership of each security placed into his hands by his customer. If it appears that the security sold through his services, belongs to a previous owner and was not bought through regular stock exchange channels, the Association refunds the sales price and in turn claims the amount paid from the member of the Stock Exchange.

Amsterdam stock brokers have also formed a new association. One of its conditions of membership is that each candidate must also be a member of the Association for the Trade in Securities. Brokers refuse for the time being to accept new customers and do not accept orders from unknown persons.

Regulations issued by the Netherlands Ministry of Finance limit stock exchange transactions to the sale of interior bonds and mortgages, while payment for these may be made only from one blocked account into another. No free money may be used for trade in old securities as it is essential that these free funds be applied to new capitalization and reconstruction.

In order to promote investment of free money, the government is issuing negotiable savings certificates bearing 2½% interest. As a further inducement, these savings certificates may be used for payment of special tax levies and inheritance taxes. Moreover, the certificates may be purchased out of blocked funds, up to an amount of 300 guilders.

Foreign Trade and American Prosperity

(Continued from first page)

statements of quite a different character. Last year, Mr. Currie, a spokesman of the Foreign Economic Adiminstration, declared that we could not hope to achieve full employment in the United States unless we succeeded in increasing our exports from the normal prewar level of three billion to fourteen billion dollars.

Apparently in the eyes of some, an active export trade now has become the key to national prosperity and domestic employment. We must examine these conflicting claims because our conclusions must guide us in our decisions with respect to the wisest economic policy on the part of our government. The issue is still further complicated by two other conflicting claims.

There are some who claim that foreign trade leads to international goodwill and mutual understanding, but there are others who claim that foreign trade leads inevitably to international friction, resentment, fear, and conflict.

This issue also is of importance for nothing today is more urgent than the establishing of a lasting peace. Peace has always been desirable; today it is an absolute necessity. One more war like the last one, with or without atomic bombs, and there will be nothing left worth fighting over. Lasting peace has become the most urgent and most important concern of all peoples. It has become a matter of economic and cultural survival.

Which of these opposing claims is correct and what in the face of the facts should be our national policy?

The Importance of Foreign Trade

The claim that our exports amounted in prewar years to only 10% of our total production is statistically correct. But the conclusion that therefore exports were of negligible importance to our national life is not correct.

If we take at random one of the prewar years, we find that during 1923 the total value of all manufactured products produced in this country, if we exclude duplication, was about $38,500,000,000, and the value of our exports of these same products was only 7%.

But such overall figures give an incorrect picture of the importance of exports to this country. When we examine the importance of exports to industries that do export their products, we find that some of them could hardly exist without them.

During 1938 we exported 35% of our sewing machines; 28% of all our tractors; 53% of all refined copper; 17% of agricultural machinery. When we study agricultural products, we find even more significant figures. Forty-nine per cent of our linseed went abroad, 43% of all prunes, 31% of the cotton, 29% of the tobacco. To the industries actually engaged in exporting, such exports represent therefore in many cases the difference between prosperity and bankruptcy. The importance of exports is not expressed only in the value of the products exported. These products must be shipped, loaded, and unloaded. Office workers must keep records, secretaries must write letters, banks and insurance companies must lend their assistance.

How many men and women are actually employed full time or part time in making and distributing these exports is impossible to estimate. Attempts have been made but these estimates vary from about 3,000,000 to 7,000,000 workers. I know of no accurate method now available to determine which of these estimates is correct. But even the lesser figure when applied to the total number of workers amounts to no less than 13% of all employed in agriculture, manufacturing, and mining and transportation combined.

Imports Must be Paid For

Exports do provide jobs. Now it is beginning to be understood in this country that there is no virtue as such in exports. They have no meaning unless they are paid for. In order to receive payment values must flow back into the United States. Not all this return flow of values need to take on the form of imported goods, but a considerable portion will take this form.

When in 1938 we exported a little over three billion dollars worth of merchandise, we imported nearly two billion dollars worth. This is in some quarters a certain indication that foreign trade is of little value since the jobs created by our export trade are almost completely offset by the destruction of work opportunity resulting from imports. They reason that the merchandise imported displaces domestic products. Thus while exports employ domestic labor, imports give employment to foreign labor and eliminate jobs for American workmen. But such reasoning is fallacious.

Many of the products imported are non-competitive and create to a sense a market which did not exist for domestic products. Moreover a large percentage of the foodstuffs and industrial raw materials we need are not produced in sufficient quantities in this country or cannot be produced at all. Without them many of our industries could not produce any goods. From 20% to 25% of all factory raw materials normally used in this country are imported and become a part of our finished manufactures and foodstuffs.

Moreover, imported merchandise needs labor of various kinds to transport them, to sell them, to place them ultimately upon the shelves of the stores and in the storerooms of the manufacturers. Again, estimates are unreliable but such estimates as have been made place the number of men and women engaged in the handling and distributing of imported merchandise close to that engaged in export trade.

In fact, a study made by the American Manufacturers Export Association in 1935 comes to the conclusion that the total number of workers engaged in both export and import trade represents 29% of all workers in the United States.

This estimate is probably too high but even if we reduce it to 20% we still come to the conclusion that foreign trade, both import and export trade, does mean jobs to the people of the United States. It is obvious then that an expansion of foreign trade will bring more jobs.

The arithmetic will not be simple since a large number of unknown factors enter into our calculations but no one can doubt that if we succeeded in reaching the high mark set for exports by the spokesman referred to, if we actually did increase our exports from three billion to fourteen billion dollars, or five times their former volume, that at the lowest estimates jobs for some 12,000,000 people could be created or about 8,000,000 more than normally; and if we stick to simple and I may say naive arithmetic, we may conclude that we would thus absorb all those who according to similar guesses will be unemployed by the end of this year.

And that does not even take into account the jobs that would be created for those who handled and distributed the imported merchandise that will begin to flow in larger volume into this country. What a simple and pleasant solution for our domestic employment problems! We cannot find work for all our workers, not enough to keep them all employed, so we shunt the problem on to the shoulders of other nations. We shall give them employment by having them make goods for foreign countries. Why did we never think of this before?

The Future of U. S. Foreign Trade

As Mr. Frederick C. Crawford, President of the National Association of Manufacturers, said in October, 1944:

"Never before in the history of our nation has the opportunity been so great to sell our products to countries around the globe."

Here indeed is the highway to national prosperity. But why be modest about it? Why stop at fourteen billion? The world is big; why not aim at twenty-eight billion?

Before we allow ourselves to be swept along by this easy-going optimism, we must ask some very serious questions. Will it be wise to build up our exports to such unheard of figures? Would it be profitable? Would it indeed be possible? Unfortunately I must answer each of these questions with an emphatic "No."

It would not be wise; it would not be profitable; it may not even be possible. Our question may therefore have to be rewritten. Not: How much may we succeed in exporting? But: How much can we afford to export? This requires further explanation.

I do not mean to say that the figure of say fourteen billion exports will never be attained; but it will require very special effort on our part to achieve it in the near future. We shall not achieve it in time to meet the unemployment crisis which many expect will follow in the wake of our present domestic production problems.

Figures by themselves have little meaning. When we set these theoretical figures alongside some figures of the past, we shall gain a better perspective.

The largest volume of exports we have ever reached was in 1920 when our exports amounted to $8,228,000,000. But this high point was maintained only for one year.

The very next year exports had declined to a little more than one-half the 1920 volume. By 1932 they reached a low of $1,611,000,000, or less than they had been at any time since 1905.

It would take a very clever and daring economist to determine from these figures exactly what the relationship is between national prosperity and export trade. To be sure, we have reached an even higher level during the recent war. In 1944, our exports amounted to more than $14,000,000,000, but $11,000,000,000, of these were Lend-Lease shipments.

Strictly commercial shipments were therefore somewhat less than $3,000,000,000. It will therefore require very special effort to equal on a commercial basis the volume of shipments we attained when we were giving things away.

Shall We Boost Exports?

Will it be wise to attempt it? We are concerned with the possibility of large-scale unemployment and with the problems of overexpanded factories. But before we accept a fantastically large export trade as our solution, we must ask how such activity on our part would affect other nations.

The destruction abroad both in Europe and in Asia amounts to hundreds of billions of dollars. A month ago I saw in Holland people riding in freight cars seated on camp chairs. And they were cheerful because at last the railroad was moving again. Many sections of the railroads are no more than streaks of cinders. The rails were taken to Germany and the ties were burnt. There is not one bridge that was not damaged or totally destroyed. The center of Rotterdam, a city of 700,000 inhabitants, is completely gone; only the city hall is still standing in the midst of what is now a grass-covered field. Factories are destroyed or have been robbed of their machinery. There are no raw materials and coal supply is 20% of normal. And to greater and lesser degree, that is what can be seen all over Europe.

Position of Holland and Great Britain

Great Britain did not suffer from German occupation but entire sections of her big cities are gone. The railroads are in poor condition from the heavy work they did during the war and from lack of proper care. Her factories need new machinery and raw materials, and her people need food and clothing. Most of these countries depended upon imports. Great Britain and Holland before the war imported far more than they exported. The excess was paid for by the earnings of their merchant marine, and by earnings from foreign investments. A large proportion of these foreign investments has been liquidated and half of the merchant fleet has been sunk.

If these countries are to pay for their necessary imports, they must therefore depend more than ever before upon exports. In the case of Holland, imports are strictly controlled by the government. A limited quantity of foodstuffs, an even more limited quantity of clothing are allowed to be imported.

For the present factory equipment and industrial raw materials are given priority and so, many factories are at work to produce merchandise, not for the local population, but for export.

The people will have to get along as best they can. The building of an export market is of more importance to the country than the immediate comfort of the people. Exports are the only hope —the life raft of the country. Through exports a normal economic life may again become possible, through normal imports. And so the old motto "Export—or Die" was never more true than today.

It will not be easy for these countries to export. Their old markets are no longer as dependent upon the importation of foreign manufactured goods as formerly. During the war years the non-European world has begun to industrialize at an amazing rate. British India increased its steel production to 1,500,000 tons —nearly enough to supply her war and civilian demands.

The output of textiles in 1944 was eight times that of before the war. Pharmaceutical products, shoes, a large variety of civilian goods, are now produced in far greater quantities than ever before.

This does not mean that there will be no market at all for foreign products but it will mean that the market will not be able to absorb as much of the products formerly imported. And what is true of British India is true of many of the Latin-American countries. New industries have been developed. Immigrants from Europe have brought skills and technical knowledge, and in many cases we have contributed capital and mechanical equipment.

In Australia a large steel plant has been built, and the local raw materials have become the basis of industries entirely new to that country.

All this means that where the countries of Europe are faced with a very much increased need for exports, the possibility of selling their goods abroad are very much less. That is the kind of world in which we will have to operate.

The announcement made in this country that we must expand our exports beyond anything we ever reached before has struck terror in the hearts of the governments and businessmen abroad. If the United States needs to export to give employment to its workers, how much more necessary will it be for the European countries, and how much more difficult will it be for them with factories dismantled, destroyed, or outworn.

We are hearing a great deal about economic cooperation. In the Atlantic Charter we were promised a world in which there would be the "fullest collaboration between all nations in the economic field." There will be very little that will look like economic cooperation in the world's markets as things stand now.

The international economic world begins to show all the promise of becoming the scene of the most severe cutthroat competition the world has ever seen. Will it be wise for us to contribute to this all-out battle? Are we incapable of solving our domestic problems without contributing to the international struggle, to conflict and friction? Can we expect that countries now struggling to pull themselves out of the mire by their own bootstraps will pull us out at the same time?

Excessive Foreign Trade Expansion Not Profitable

Even if these considerations have no weight with us, we may be willing to restrain our efforts if we should discover that in all probability an excessive foreign trade expansion will not prove profitable. A normal volume somewhat equal to the prewar volume can probably be carried on on sound business lines without artificial stimulus but when we set our sights as high as has been suggested, we shall be compelled to resort to methods of doing business which may not be sound.

Everyone can see readily that if we are willing to make large loans, we can export. Our export capacity will then only be limited to the recklessness of our borrowers and the lack of foresight of our lenders. Sound business requires that our exports be definitely limited by the capacity to pay on the part of the purchasers and by our willingness to receive payments.

By opening up the American markets to foreign products, we would enable others to pay us and therefore to buy from us and other nations. We could in this way make a real contribution to the revival of world trade and to world recovery.

But the practical possibilities of this are very limited. Through the extended Reciprocal Trade Treaties Act we have a method available to lower our tariffs, but the process is of necessity slow and should be slow. A careful study of specific products and of comparative costs may in many cases reveal possibilities of reducing somewhat import duties, but this takes time and such reciprocal arrangements can be made only with countries whose currencies are sufficiently stabilized so that prices will not be changed overnight by currency devaluations.

There are at present few, if any, countries in that position. This means that tariff reductions in more normal times difficult enough, may for the present prove to be practically impossible. At best the process will be time-consuming. This means that while through liberal loans and high pressure salesmanship, it may be possible for us to expand our export trade fairly rapidly, our capacity to take payment cannot keep step with these developments.

This is especially true since the products which the European countries are anxious to sell are not raw materials but manufactured products with a high labor coefficient. The very products which it will prove most difficult for us to admit.

From our point of view this makes a rapid expansion of our foreign trade of doubtful commercial value. We may for a while enjoy a comparative boom and find employment for our workers in plants with productive capacity exceeding domestic requirements. But the honeymoon will be shortlived—before long we shall discover that we have increasing difficulty in collecting our foreign accounts. Exports will once more decline and ultimately the domestic readjustment we had hoped to sidestep will need to be made.

It may be argued that we may receive substantial payments in the form of gold. This is probably what will occur in any case. Gold production is definitely on the increase and it is estimated that during 1946 world gold production will be larger by $1,000,000,000 than in 1941. Much of this gold will probably flow into this country. This, so it seems to me, would be regrettable. It is not good national policy to use up our resources, labor and capital, in manufacturing articles we can use and to receive in payment gold for which we have no use, and which we will dig into the ground as rapidly as it is received.

Exports, Imports, and Foreign Investments

Our fundamental trouble is that we apparently have not yet learned that exports, imports and foreign investments are all different phases of the same economic activity. They should be dealt with not as separate unrelated matters, in watertight compartments. We have thus far regarded it necessary only to control one of these phases. We do control imports through tariff restrictions but exports and foreign loans are left uncontrolled. No one would be foolish enough to drive a car with four-wheel brakes when only one brake band is in working order; but in our economic and financial relationships with the rest of the world, we close our eyes to two-thirds of our activities, keep our fingers crossed, and put our faith in a benevolent Providence which somehow will make things come out all right.

Thus through lack of a coordinated policy; we have created again and again a lopsided financial relationship with the rest of the world and if we follow the advice of our export enthusiasts, we shall make the same mistake in the future. Fortunately for us, there are many reasons why our export trade may fail to reach the fantastic figures we mentioned.

In the first place, it is not unlikely that our price level will rise substantially in the near future. The longer the scarcity of civilian goods continues because of the failure of management and labor to come to an agreement which will start off our production in high gear, the greater the likelihood of rising prices. Higher prices will act as an effective brake upon our exports. Other countries in a less chaotic industrial condition will begin to fill orders which might have come to this country.

Sweden, Switzerland, are actively pushing their way into the markets able to buy. Their prices for many items of equipment needed by their customers are lower than those of American producers and what is more important right now, they can make immediate delivery.

Foreign Import Restraints

The most effective obstacle to our export activity will be found in the restraint placed upon imports by the countries that would in theory be our most effective markets. Australia is determined to protect her newly established industries and will do so increasingly by high import duties. These duties make it at present practically impossible to sell garage equipment, hand tools, and other similar manufactured articles in that market. General Motors is now planning to establish a branch factory there to produce a car especially designed for the Australian market, because they realize that it will be impossible to import American made cars.

The general inability to make dollars freely available to their importers will compel many European countries to continue to control the volume and character of imports. Only the fortunate neutrals able to sell abroad at least to some extent are not compelled to place such strict controls upon imports. But Sweden, Switzerland and Portugal do not consitute markets of very great importance. The other countries, Denmark, Norway, Holland, Belgium, France, and Great Britain, must limit their imports for some time to come. They will allow the importation only of the absolutely indispensable items for civilian use and will nurse along carefully their small supply of foreign exchange to employ it for the purchase of a limited supply of machinery and raw materials required to rebuild transportation facilities and factories that can produce for export. Their domestic employment problems are far more pressing than those of the United States, and any imports that are likely to diminish local work opportunities will be kept out of the country.

Latin American Prospects

Much enthusiasm existed a few months ago about the export opportunities in Latin America. The republics to the South have been able to sell at fantastically high prices raw materials in large quantities. As a result, they find themselves in a better financial position than at any time in their history. They are estimated to have about four billion dollars in available dollar balances.

But again, I would warn against too much enthusiasm. While they were unable to buy merchandise customarily imported, these countries have built new industries. They will want to keep them. Industrialization to them means that they will have a more diversified and therefore more stable economic life. They will no longer be the tail to the kite of the industrial nations of the world. But they will need to keep those industries for another good reason. Now that the older sources of supply are opening up again and Africa and the Far East are again entering the world markets, the export opportunities for the Latin-American countries will shrink. If they are not to face again financial difficulties they must restrict imports correspondingly.

All this means that they will consider it good national policy to protect their new and in many cases high-cost industries from foreign competition. It is therefore quite probable that increased obstacles will be raised the world over against imports. Our exporters may not find it as easy as some thought at one time to sell abroad. And this is leaving out of the picture another important factor.

Chaotic Monetary Conditions

The monetary conditions in most countries which are potential importers of American goods are chaotic. To give but one instance, France is suffering from a severe case of inflation, even worse, if this is possible, than Belgium. Recently the French franc was devalued from 49.627 to 119.107 to the dollar.

I do not believe that this will be the last time that France will take such a step. Since 1928 the franc has been devalued six times. The effect of such devaluation is to increase the export and to decrease the import possibilities. France is not the only country that will need to resort to such measures. Our exports will suffer in consequence, not only because of the relatively low prices that will for a time prevail in the country that devalued its money, but also because of the element of uncertainty that is introduced in foreign transactions.

Foreign Credit

In normal times credit plays a more important part in foreign selling than in the domestic trade. But an uncertain currency adds an element of financial risk which makes normal credit difficult if not impossible. Even if credit is written in terms of dollars and the exchange risk is borne by the buyer, the added risks will hamper normal trade. As a result of the devaluation of the franc, any debts contracted in dollars have suddenly been increased more than 100% in terms of the French market.

The outlook is therefore by no means bright and as I said I consider this in a sense a favorable development. A very definite restraint will be imposed upon our export enthusiasm.

It cannot be denied that such conditions will retard world recovery. Instead of merchandise moving freely to the benefit of all, the securing of world trade will be retarded.

Is there anything that can be done to create a world in which trade will enjoy greater freedom? Ultimately the more goods flow back and forth, the more industrial activity there will be. The more factories and merchants will be able to offer employment. Ultimately world prosperity will be promoted by the freest possible trade relations. But as in other situations, we must be careful to distinguish between what is theoretically desirable in the long run and what is practically possible in the immediate future. This distinction has not always been kept in mind by those who shape our foreign economic policy. We shall not be able to work out a sound policy until we realize clearly what the practical necessities of the moment are.

It is easy to agree on general principles. Who indeed would not be in favor of international cooperation or who would deny that freedom is a most desirable thing. But practical necessity may make it impossible and even undesirable to put into operation measures which may seem theoretically desirable. We have done a great deal of preaching to the world. Too often, however, we have spoken like the preacher who said, "Do as I say; for heaven sake, don't do as I do."

We have—and properly so—aided in the development of an international agreement—the Bretton Woods proposal under which the nations agree to take steps which will do away with sudden and uncoordinated change in the foreign exchange rates. This is sound. Trade cannot revive when currencies jitterbug. But no stabilized conditions can be created and maintained in the monetary field until a certain degree of stability has been created in the economic field.

Holland and Belgium during the war laid plans for an economic union between the two countries. This was hailed as the first step in the direction of a sound economic revival. It was an excellent plan but there is no indication today that the plan can be put into operation in the near future. When a meal which cost in Brussels about $8 in American money can be bought in Holland for $1.50, then we need know no more of comparative price levels to see that they are so far apart that a union between the two countries in which tariffs would become a thing of the past is today utterly impossible. The relations between the Belgian franc and the Dutch guilder are kept steady for the time being, but it is common knowledge that if government controls over the foreign exchange market were relaxed, a disastrous readjustment would suddenly take place.

And what is true of the relations between these two countries holds true in varying degrees of most of the countries in Europe, and even in Latin America.

Danger of Relaxing Government Controls

To relax government controls would create even worse chaos than exists today. Our government has thus far accepted as axiomatic that the world needs a rapid liquidation of all trade restrictions and government controls. There are several philosophic reasons for this: We are afraid of any kind of planned economic life. We have absolute faith in the virtues of free competition. I sympathize with these sentiments. And yet it may be that at certain critical periods of the world and of a country's economic life, a large measure of control and planning holds out the only hope of salvation.

Mr. Baruch and others have assured us that our almost unbelievable industrial accomplishments during the war are a certain proof of what can be achieved in a free uncontrolled economic life. But if we are honest with ourselves, we must admit that we could never have won the industrial battle if we had not had restrictions on certain kinds of production, restrictions on exports, rationing and price control. We never have been less free than we were during the last war.

Now that does not mean that such controls are in themselves desirable, nor that they must become a permanent part of our national life. It does mean that when a nation faces a gigantic task, people must pull together, give up some of their independence of action for the sake of the common good.

Our present period of reconversion would have taken on a different aspect if we had not suddenly decided that the war was over and that the remedy for all our economic problems had suddenly become to let the boys fight it out among themselves. Whatever faith we may have in the absence of controls, abroad this faith is not shared.

When a country is attempting desperately to pull itself up by its own bootstraps, then it turns a deaf ear to those who come with the message that the way to solve problems is to do nothing to solve them. For that reason our government's message that what the world needs is the removal of government restrictions and of restrictions placed upon trade by private combines is not received with enthusiasm. Their response may be summed up in the one question: "You tell us how."

When we respond by telling them that only in this way can a world be built with an equal opportunity for all, they answer that even a total removal of all restrictions even including the United States would not create equal opportunity. The poor would still remain poor with destroyed plants and underfed workers. The rich world will be rich with overexpanded and undamaged factories.

There would not be equal opportunity. It would create a world in which the rich would win and the poor would have practically no chance at all. Seen from our comfortable position, with our wellfed if not overfed bodies, all that may seem very foolish. To other nations it does not.

What Can Be Done?

Can anything be done?

Many things can be done, but whatever is done will require time and careful planning, and will probably require some sacrifice. The rich may make loans to the poor. That is nothing new or revolutionary.

After the Galveston flood, many manufacturers and wholesalers in the Northern States canceled all obligations of the Galveston merchants and granted them new credit. That was sound business. They have never regretted this action. In principle, this is what the British loan means except that there is more reason for it than for the Galveston extension of credit. Great Britain for two years prevented the flood from reaching us before we got into the fight ourselves, and Great Britain is not a minor sector of the world—a business and financial rehabilitation of Great Britain will mean not only the opening up of what was at one time our most important European market, four times as important as France; but our loan to Great Britain will also enable that country to set free the huge sums owned by those who sold on credit during the war, funds which now are blocked in the English banks.

A revived Great Britain will mean without question a tremendous boost for many countries the world over, within and outside the sterling bloc. But international loans of this character serve only as pump primers. And we know from our own domestic experience that pump priming may sometimes cause the pump to freeze up altogether.

If we assume that such a loan pays even a moderate rate of interest, and that both the loan and the interest are to be paid, then such loans make increased exports on the part of the borrower more necessary than ever. Consider the credit position of Finland. Finland borrowed after the first world $8,833,011. Thus far Finland has paid us $6,219,635, and they still owe us $8,032,000. And Finland producing products, such as pulp wood for which we had a market was in a relatively favorable position to make payment.

Under the most favorable conditions, a loan means a temporary flow of exports from the lending country, followed by a long period during which the borrower must in some way contrive to export enough to pay the bill. No matter what we do, the answer always comes out the same—more export opportunities. This would give new weight to our message of a world free from controls were it not that controls cannot be abandoned. It therefore is not a question of whether there are to be controls or no controls, but rather what kind of controls. Now from the point of view of international trade, the most disturbing aspect of such controls consists in the fact that they are the expression of unilateral action. Each country acts independently in an attempt to improve its own position. Generally such unilateral action harms other nations by limiting their economic opportunities. In self-defense those injured countries take similar unilateral action and things progress from bad to worse. They did so after the first war and we are nicely on the way to see the story rewritten in even more striking terms.

The problem is therefore to recognize the fact that each nation through circumstances over which it had no control or because of a long historic development needs to maintain certain controls over the flow of goods out of and into the country. And while recognizing this fact to set set about to coordinate these controls so that instead of unilateral action, multilateral action is established. This is the only way in which a world composed of separate units economically at war with each other can be remodelled into a world cooperating for mutual welfare.

We are indeed one world. Our State Department last November issued a set of proposals for the calling of an international conference on trade and employment, with the purpose of establishing an International Trade Organization which would be a permanent body like the International Labor Office and other similar organs of international cooperation. This is an excellent proposal; but we must enter upon this conference without prejudice. We shall find that controls cannot be done away with. We will find two methods of control: Government control and control by private enterprise organized for this purpose. Of late our government has undertaken a campaign of condemnation, one may almost say vilification, against these private organizations. The result is that today the very name cartel sends a shudder down the spine of most

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Foreign Trade and American Prosperity

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loyal Americans. These mysterious instruments of iniquity have been represented to him as a German invention with no other purpose than to strengthen the nefarious and sinister aims of the German leaders.

Cartels

As a matter of fact, these cartels did not find their origin in Germany but in England and Belgium, and at present they are found in every important commercial country except the United States. In most countries they are subject to government control and supervision and are not only tolerated but encouraged by these governments.

And for sound reasons. Now that controls must be exercised the governments have begun to realize that a government body is usually ill equipped to exercise such control, so more and more the governments are inclined to delegate this important function to business itself. If steel is an international problem because more steel is being produced than the world can use in peace time, and because more and more countries are engaged in the production of steel, something must be done to soften the effects of this keen competition if a disastrous life-and-death battle with all its political implications is to be avoided.

What is more sensible than to call together the steel producers of the country, if they have not already organized themselves, and to say to them: "Organize so that you can as a group discuss the problem of world competition with steel producers of other countries similarly organized. See that you come to some agreement with respect to the division of markets, prices, and production quotas."

That is the essence of a cartel. The fact that because of inadequate national and international supervision of their activities, such cartels have at times been guilty of anti-social action does not condemn them. Unorganized private business has not always operated with only the public welfare in mind; and yet we do not condemn business as such.

Under laws passed in 1890, when the world was simple, we made it a criminal offense for our businessmen to organize themselves in a similar fashion.

But whatever our national law, we can hardly expect other nations to abide by it. We must do business in a world in which both governments and government-sanctioned industrial combines are operating. Preaching will do no good. The wisest course to follow is to recognize the structure of the world to be as it is, and to act accordingly. Moreover, there is nothing innately wicked about these cartels. There are bad cartels; there are good cartels.

The function of the government is to make bad cartels good and to keep good cartels good. At least that is the generally accepted attitude abroad. From the point of view of the stabilizing of international economic relations, it must be recognized that these combines may, under proper control, be used as effective instruments in the building of a world in which not cut-throat competition but a spirit of international economic cooperation will prevail.

We have set about in the United Nations Organization to create one world in the diplomatic and the military field. All attempts along this line will fail unless we build upon an economically sound one world.

The objection will be raised that by thus cooperating with existing foreign government control agencies and with private combines, we shall limit our export opportunities. This to me is no argument at all.

Our exports have always been restricted. But in the past they have been restricted by the unrelated and unpredictable unilateral actions of foreign governments. For this I would substitute a limitation by agreement and negotiation—a limitation which will bear in mind conditions abroad, the requirement of a gradual and peaceful rehabilitation of world trade, and our own capacity to take payment.

Unless we, together with other nations, succeed in building a live-and-let-live world through genuine cooperation among all nations in the economic field; unless we realize that this is indeed one world and that prosperity is indivisible; the world will before long slip back into the same chaotic conditions of before the war—conditions out of which a new war will almost certainly emerge.

And let us remember: This is our last chance.

Business Man's Bookshelf

Charter of the United Nations, The—An Analysis—Felix Morley—American Enterprise Association, Inc., 4 East 41st Street, New York 17, N. Y.—paper—50¢.

Income Tax Withholding Chart Book for 1946—for semi-monthly, bi-weekly, weekly, and daily payroll periods—Manufacturers Trust Company of New York—paper.

Pension and Profit-Sharing Plans—analysis and text of law and regulations, and model forms of trust agreements—Manufacturers Trust Company, Personal Trust Department, 55 Broad Street, New York 15, N. Y.—paper.

Plastics and the Plastic Industry—No. 7 of an "Engineering Interpretation of the Economic and Financial Aspects of American Industry"—George S. Armstrong & Co., Inc., 52 Wall Street, New York 5, N. Y.—paper.

Rayon Common Stocks—outlook for the industry—E. W. Axe & Co., Inc., 730 Fifth Avenue, New York City—paper—$1.00 (50¢ to public libraries and nonprofit institutions).

Report Proposing Amendments to Federal Income, Estate and Gift Tax Laws—Trust Division, American Bankers Association, 12 East 36th Street, New York 16, N. Y.—paper.

Retirement System for Farmers—Murray R. Benedict—National Planning Association, 800 Twenty-first Street, N. W., Washington 6, D. C.—paper—25¢ (discounts in quantity).

Harris, Hall Co. Adds T. McPhee to Staff

Harris, Hall & Co., Inc., 14 Wall Street, New York City, announces that Thomas McPhee has become associated with the firm in its corporate trading department. Mr. McPhee was formerly with Lazard Freres & Co.

Favors British Loan

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"inflation" when the Treasury itself works at cross purposes through the creation of more debt money.

6. That export trade is not our salvation, but our undoing. Cheap foreign goods in the end will displace domestic goods with resulting unemployment and hard times.
7. That all of Europe has embraced Socialism and that government-in-business will become strong through American dollar grants with the resulting damage to our private enterprise system.

As to point I, the British people chose Socialism in a free election. The purpose of the loan then is not to implement the socialistic leadership of England—it is rather for the purpose of meeting England's vital needs. Reconstruction of her economic and industrial life will in turn hasten her return to the position occupied in world trade prior to World War II.

As to point II, obviously warfare is a drain on the human and material resources of any combatant nation. So what? If we accomplish the end for which we fought, then in no measure can the cost be assayed. By contrast with World War I, we are taking definite steps to implement the peace. The Bretton-Woods Agreement, the UNO, the destruction of Europe and Asia's caste system, the release of gold from its fixed mooring are just some of the salutary steps.

As to point III, it should be well known that money is community debt. Unfortunately, the world debt structure as a result of two costly wars has gone beyond the ability of people to pay. To ease the debt load, it is the job of our financial engineers to create values out of ink to offset the debts which were created out of ink. The functioning of the World Bank should concomitantly allow gold to find a free and unfettered market. It should have a gradual but steep rise. Enlightened world political leadership is at last demanding *deflation* of wealth and *inflation* of wages and commodities.

As to point IV, it is emphatically true that gradual inflation is occurring. This is part of the new economic system which must stand trial just as did the 19th century laissez-faire. England, the progenitor of the so-called "free market" and rigid gold standard was until recently dominated by an aristocracy possessing feudal rights. Actually, a genuine free market, where prices are made, rents and interest rates determined, wages are fixed, absolutely without restrictions or privileged pressure of any kind has never existed. It probably never will. Someone always will have a finger in the pie.

As to point V, the price control measure (OPA) is a temporary instrument. Its continuance is advocated until only such time as we are safely through the reconversion period. Obviously, with cash savings at record levels and deficit financing continuing, the OPA and the Federal Treasury are working at cross purposes. This will continue until full-production is restored and our high national income climbs to a level where a treasury surplus replaces a deficit.

Point VI covers export trade—a most vital cog in America's high speed economy. Surely, our stupid tariff policy of the twenties must have awakened Mr. Chamberlain to the importance of the 10% of our national income represented by export trade. Take it away, as we did in 1930, through enactment of the vicious Hawley-Smoot tariff and you remove the cushion which determines profit or loss for American industry. Furthermore, with our two formidable industrial competitors, Japan and Germany, temporarily liquidated, I have no fears for American business acumen. Our industrial leaders can take care of themselves in the competitive markets.

As to point VII, our private enterprise system competing with Europe's Socialism, I can answer only in the words of Sir Ernest Benn who said, "Politics is a short sighted business, while business is a long-minded affair . . . . Whenever a man goes out to spend his own money, he can be trusted to get something like value for it. When the State spends money, value leaves the market.

Let us now review past events to see what could happen should we adopt Mr. Chamberlain's nationalistic views. For better or worse, I happen to belong to the younger generation who are endeavoring to make of this world something better than the one which existed prior to World War II.

Now the youth of today is not without self-confidence, ambition and courage. Moreover, it is humanly impossible for any young man commencing adult life to know what indebtedness he can safely assume. Most normal men and women live within their means. They save or spend as conditions warrant. They provide for their dependents through life insurance and generally speaking, get what they can from life as they go along. No doubt many opportunities are wasted. Foolish mistakes are made. As always, in the later years, these errors can be properly assessed. But each generation must gain or lose by its own experience. Mr. Chamberlain should know that no cold, mathematical formula can be prescribed for the guidance of youth nor government.

So in the case of our normal man who can save $600 dollars annually to meet interest and capital charges on a pledge of say $4,000, we should accord him the privilege of indulging in recreations and amusements, and indulging his children in such liberties as are common to his place in society. Now reduce this annual wage to say $2,000 and see what happens. There is no longer a surplus. This young man occupies a home which goes with a certain scale of living. In an effort to make the sacrifices to meet interest and principal payments, the life insurance is surrendered for its cash value. A small savings account is eventually dissipated to complete installments on the family automobile or furniture. Eventually, the sale of the automobile is consummated, even the sale of jewels and other valuables. Then comes the humiliation of borrowing from more fortunate friends or relatives. Finally, failure to pay taxes and meet interest payments on debt leads to foreclosure. Now this wage earner has lost everything—even self-confidence. He and his family have descended to a lower scale of living.

Take now the community in which these wage earners live. There is bonded indebtedness which must be satisfied from taxes. Since the source of taxes is from earnings, it is inevitable that defaults on bonds must occur. Moreover, the community must lower its standards of living. Instead of maintaining streets, parks and other community property in repair, disintegration follows.

Now let us consider the deflation problem from the standpoint of the retired investor. If the investments yield income of say $30 per day and wages are $10 per day, the investor has command over the services of three wage earners. If daily wages are reduced to $5, then the investor commands the services of six wage earners. His relative wealth has been increased three fold. If, on the other hand, the daily wage scale goes to $15, the investor commands only two wage earners. His relative wealth has been decreased. When wages and commodity prices are permitted to fall, the comparative wealth of the investing class is increased. On the other hand, the working class become relatively more poor. For a time, the independent investing group enjoy greater purchasing power and better living standards. But eventually, the reduced spending power of the wage earner filters through to the upper level. Since the working class cannot contribute its tax share, the burden is shifted. Taxes on invested wealth are increased. Income and inheritance taxes become more and more confiscatory. Securities depreciate, some becoming worthless. Industrial and railroad bonds cannot be redeemed. Issuing corporations are forced to the wall. Farm and home mortgages default. Real estate values fall because of burdensome taxes or lack of buyers. Rents decline for lack of tenants. These losses reduce the purchasing power of the investing class. They lessen the demand for the output of the industrial worker and farmer. The result is more unemployment. Gradually, members of the investing class are forced to seek real employment. Thus the ranks of the unemployed increase. Only those few of great and independent means survive the stress. In the final analysis, we find that reduced prices for commodities and labor has lowered the scale of living, arrested cultural development and curtailed education. In an eye-cup, here is a graphic outline of what happened as a result of the tragic follies of 1920-'30. Had the Federal Government controlled and managed the over-all debt structure in the 'twenties as it does in the 'forties and will in the 'fifties, I question very much whether our nation would have sunk into the horrible abyss which followed 1929.

Assuming our national income will be stepped up to somewhere near the high levels recorded in 1943-'44 and '45, I daresay our Federal debt will never prove unwieldy nor burdensome.

In my judgment, there are six important steps to follow in the great recovery era which lies ahead.

1. Make generous loans to our war allies, Great Britain, Soviet Russia, France and China and lesser friendly states.
2. Give all aid to private enterprise in the form of reduced taxes and lessened Federal restraints.
3. Encourage high daily wages through incentive pay plans, and a gradually reduced work-week.
4. Keep individual income taxes at present high levels for at least a decade, but reduce Federal expenditures to the prudent minimum.
5. Implement and strengthen the Bretton-Woods monetary plan and simultaneously throw open the world trade lanes by abolishing tariff barriers.
6. Stay away from a fixed anchorage for gold. The elasticity for a cooperative world society must be provided by a rise and fall in the values of surplus wealth rather than by holes in the belts of wage earners. As human activities increase through world reconstruction and restoration of commerce, let the price of gold be temporarily stabilized in reference to other commodities through the function of the World Bank.

The painful alternative to these six proposals is to follow the unorthodox financial methods of 1920-'30 which fostered a breakdown of world trade, promoting the extremes of nationalism and directly lead us into World War II. We made foreign loans for political advantage in the 'twenties, but under what conditions? When Europe and the British were ready to sell their manufactured goods in our competitive market, we initiated tariffs. Finally, with the adoption of the Hawley-Smoot legislation, America really had made the world break-down complete.

In the rapid whirl of events during the past 50 years, our nation has gone through a remarkable evolutionary cycle. First, a rush of settlers to the West, to the land made available by newly constructed railways. Then a rapid development of industries and the growth of enormous fortunes; next a period of frenzied wartime prosperity, and finally, a great financial autocracy jockeying for world power. This same cycle, much more slowly, has occurred in the history of European nations. Their periods of autocratic power have been marked by overbearing and oppressive leadership, coupled with low standards of living and poverty. Now, again, throughout Europe and the Orient, we see long faces and threaded garments. We see stagnant trade and endless queues of weary people waiting to spend their ration coupons on the bare necessities of life. Manners are rough and courtesy a forgotten quality. Everyone seemingly is suspicious of his neighbor. It is indeed a sad state of affairs.

We know Europe is hopelessly debt ridden. Had World War I and World War II been fought on a cash basis, there would be no need for this recurrent discussion of the solution of war debts. With accrued interest, the debts owed us from World War I alone now total perhaps $25,000,000,000. To this sum must be added the staggering total of goods and material shipped abroad during and immediately preceding World War II. Some of this debt could possibly be paid if the Old Country would make the necessary sacrifice. But there is no power on earth that can wring these sacrifices from the distraught people of Europe. The total war debts, our own included, are greater than all the excess new wealth which can be produced by this and several future generations. We created these debts out of nothing. We must pay them with something created out of nothing. The debts cannot be paid with money because they are mere hallucinations. Therefore, they must be paid with something equally unreal. Nor is there any hope of segregating direct war debts from normal debts since all our Federal debt has become interwoven. It is the reduction of our own Federal debt which concerns us first. Secondly, and concurrently, it is helping Europe and Asia to again become profitable customers for our surplus farm and manufactured goods by making available dollar exchange. When we think of reducing the total of debts, we do not necessarily mean diminishing the figures, but rather decreasing the ratio between the numerical value of the debts and the numerical value of our available means of payment. When we destroy our available wealth by deflation, we inflate the relative value of debt. If we add to our dollar wealth by inflation, we deflate the relative value of debts. In the former case, the relative load of indebtedness is increased while in the latter it is decreased.

Should we refuse to wholeheartedly support the World Bank; should we refuse to sanction loans to Great Britain, France, Russia, et al, then real world recovery will be illusory and World War II will have been fought in vain. In other circumstances, Great Britain can and probably would devalue the pound sterling to a very low figure; the sterling bloc would be revitalized and strengthened, and I, for one, question very much whether our own private enterprise system could long survive the stress. Has Mr. Chamberlain ever reaped the rewards which follow extending new and additional credit to a faithful, tried and proven comrade temporarily down on his luck? As President Truman has aptly stated, "Britain needs this credit and she needs it now. It will enable her to meet the expected deficit in her balance of payments during the next six years. It will enable her to buy from the world the supplies of food and raw materials which are essential to the life and work of the British people."

As a Republican and Californian I heartily endorse the President's stand. I urge you, Congressman Anderson, to join other farsighted men and support this urgent measure.

Respectfully yours,
JOHN L. ROWE.

"High-Level" Employment—Now and Forever

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chinery. Above all, we want to eliminate the failures of the competitive system. In particular, we want to eliminate the depressions which have brought hard times for millions at periodic intervals.

Government Spending a False Idol

We have been considering a so-called full employment bill in Washington, written by theorists who believe that prosperity can be guaranteed if only the Government will spend enough money. The bill in its original form advocated by President Truman and the PAC insisted that Government spending was a panacea for every ill and in every crisis.

It was based fundamentally on the absolute guarantee of jobs by the Government, to be made possible always as a last resource by an indefinite spending of Government money. The advocates were entranced by the idea that huge spending had brought about full employment during the war. They overlooked the fact that it was done at the expense of increasing the public debt by $50 billion a year. Obviously, huge deficits cannot continue without producing a great increase in prices and the cost of living, a distorted boom, and then the very collapse and depression we have been trying to avoid. When it was pointed out that Government deficits in the thirties did not prevent unemployment, the answer was that the deficits were not big enough. They should have been $15 billion or $20 billion instead of three.

The Problem Is Not to Create Full Employment but to Maintain High-Level Employment

This so-called full employment bill has not been an easy bill to oppose, because the goal of all of us is full employment, or, more exactly, high-level employment. There cannot be absolute full employment at any time. There are always several million changing from job to job. There are millions who work at times and do not care to work at other times. But, roughly speaking, we all agree on the goal of maintaining a condition in which every man who wants to work can get a job which will pay him the value of his work. That is, we want continuous prosperity at a stable level and not booms punctuated by serious depressions. In fact, if we had another depression like 1932, we might find that the people insist on turning to some other system where the Government does all the operation itself.

The difficulty is not in bringing about high-level employment. Any government can do that at any time. We have had many periods of high-level employment in our history. The difficult problem is how to make that high-level employment permanent; how, in other words, to prevent depressions.

That problem can only be solved by sound Government policy in finances and in economic measures. The problem is to keep the great economic machine running steadily, smoothly and speedily with full production. To accomplish that there must be a sound balance between all the factors which keep it moving. There must be a steady balance between wages and prices and the cost of living, a steady balance between farm prices and industrial prices, a steady balance between savings and investment, between the purchase of capital goods and the purchase of consumers' goods. If the price level gets too high for the wage level, purchasing stops and production must be reduced. If wages get too high compared to prices, the profit incentive to produce or expand production ceases, no one expands their factories or builds new factories, and again production falls because there is no profit in undertaking it. That happened in 1937 when manufacturers were afraid to raise their prices to meet increased costs and utility rates were regulated by law. The same thing threatens to happen today if price controls are too rigidly maintained. If farm prices fall below industrial prices, the purchasing power of the farmer drops and production drops of the goods the farmer buys. If more money is saved than is required for capital investment, there may not be enough spending to maintain the production of consumers' goods. This seems to have happened in 1929 when everyone was trying to make his fortune, invest his capital and live without working the rest of his life.

In general, we have to avoid both inflation and deflation. Both rising prices and falling prices distort all relationships and the struggle of those who suffer to regain their relative position produces endless strife and complication. What we want is a stable, balanced price level and a stable wage level. Only if we can continue to increase the productivity of our workers, which in this country has averaged from 2 to 4% a year, can we very gradually reduce the price level and increase the wage level without inflation.

The Executive Has Adopted an Inflationary Wage Policy

The danger today is inflation. The Government is so determined to bring about full employment at high wages that it has lost all sense of moderation or sound permanent policy. It has adopted policies which lead directly to an inflation of prices and then tries to prevent the rise of prices by abitrary price control measures which cannot long prevent the result of wage rises and cost and tax increases. There is no use for the President to inveigh against inflation when we already have inflation through Government action and are bound to have more if we continue in our present course.

The Price Control Administration has done a good job in holding prices against the other policies of the Government, but it is now officially admitted that there has been a 33% increase in the cost of living since 1941. Some claim it is much greater and it is bound to be greater in the end. In any event it is generally agreed that prices have not gone up as much as wages and other costs. Average straight-time hourly wage rates, according to the Bureau of Labor Statistics, have increased 42% over Jan. 1, 1941, 9% more than the increase in cost of living. The additional general increases in wages and salaries, stimulated by President Truman's declaration of policy, will probably place the increase in average straight-time hourly wage rates, after allowing for downgrading, at approximately 50% over that prevailing before the war. Whether OPA can hold prices temporarily, I do not know, but I doubt if it can do so without checking production. In any event, OPA will not last forever, and the inevitable result of a general increase in wages is to increase all costs and all prices. After a valiant fight against inflation, the Government policy today, as far as we can judge, will force a level of prices at least 40% higher than before the war.

It is not surprising with this Government policy that the price of capital goods has correspondingly increased, both on the stock market and in the real estate market. It has never proved practical to fix the price of capital goods. If prices were fixed on stocks, legitimate trading would cease until true values were recognized. If the price of old houses is fixed below what is the probable value after controls are removed, sales will stop, except on the black market.

I do not believe it is practical to fix the price of old or new houses, but I do think that for the present we should continue some control over the price of building materials and building profits. Also, I believe that rent control in some form must continue for at least another year. The shortage of homes is so great and so impossible to meet promptly, that without control there would be an inflation far beyond that justified by increases in costs. The controls, however, should be reasonable and I hope that OPA is really moving in the direction of relaxing rent control on new homes. I believe myself that rent controls should be entirely removed on rental housing built from this time on, for few will undertake it if they face rent control for several years to come. Only a small percentage of the total housing available will be new housing and I am quite certain that the removal of rent control would stimulate construction of more housing which is the only ultimate solution.

I have said that I think the Government policy is a mistake and is bringing about a permanently higher and inflated level of prices. That means a period of hardship and adjustment during which millions of men and women must bring up their own standards to meet the inflated price level. I believe that the effort should have been to stabilize wages and prices at about 33 to 40% over pre-war instead of encouraging a rise in wages of approximately 50% over pre-war, with very little ultimate increase in real wages because prices will be correspondingly higher. But the step has been taken and I see no practical way to undo now the damage which has been done.

We can do our best to prevent this inflation from getting completely out of hand. If higher wages lead to higher prices, as they must, and we are then faced again next year by further increases in wages, we shall have set in motion an inflationary spiral which can destroy our whole system of individual and business freedom. It must be checked and can be by a courageous and intelligent Government encouraging the production for which there is a demand. The damage already done could be gradually overcome by a united effort to increase productivity and improve the organization of our business methods.

The Executive Is Following an Inflationary Spending Policy

But hope cannot be too strong, for the Executive is pursuing another policy of unrestrained Government spending which can encourage a runaway inflation and make the situation worse instead of better. Here is a policy we can do something to control and Congress has the power. We must stop Government deficits and balance the budget. We must get rid of the theory that we can spend ourselves into prosperity.

President Truman, last week, presented a budget message and that budget message is not encouraging. At one point he states that the Federal budget "can hardly be expected to be reduced to less than $25 billion in subsequent years." I have urged over and again that the Federal Government make now an estimate of its post-war budget when the aftermath of war expenses has disappeared. This is the first glimpse in that direction. It is not encouraging.

Many private organizations have made such estimates. The Committee on Economic Development estimated the Federal expenses, not including debt retirement, at between $16 billion and $18 billion. The Twin Cities' plan estimated these expenses at a minimum of $15 and a maximum of $21 billion. The Committee on Postwar Tax Policy estimated expenses at some $14 billion to $19 billion; the Brookings Institution at a probable figure of $22 billion. Now the President causally raises the limit to a figure of $25 billion, apparently not including debt retirement.

The present tax rates only yield $27 billion, so that if we allow anything for debt retirement under President Truman's budget, there will never be any further reduction in our tax rates and a steady increase in the payroll tax. It has been assumed that many of our excise taxes would be repealed. It is certain that the tax burden on very low incomes is exceedingly high and that the rates on middle incomes and high incomes are so burdensome as to discourage any investment in risk enterprise. Corporations are not so badly off at 38% net income, but most authorities feel that business activity would be stimulated by lower rates for corporations. We have hoped that we might eliminate the duplication in taxing both corporation earnings and dividends on common stocks. All of these hopes must be abandoned if President Truman's program for spending is adopted.

If the Federal Government spends $25 billion and the State and local governments approximately $10 billion, we will be spending more than 25% of our national income for taxes. In effect, every man will be working one day out of four for the Government. Of course, one result of the general inflation of wages and prices will be to increase the dollar total of the national income and thereby reduce slightly the burden of the national debt and the interest thereon, but all the other expenses of the Government are likely to increase with any general increase in prices.

The Budget Is Indefinite, Confused and Misleading

The entire budget shows a lack of interest in economy and so confuses figures that it is almost impossible to analyze. The estimates of $8 billion for the Army and $5 billion for the Navy are lump sums accompanied by no detail whatever. $13 billion a year is a very heavy bill for armed forces in time of peace. The Navy has estimated that it will want $3½ billion per annum when peace is completely restored. The Army has given no figure, but compulsory military training alone would cost over $2 billion a year, and if the estimates of the Army and Navy officers

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are accepted, we probably will be spending more than $9 billion a year, even when peace is completely restored. Surely, we can do an efficient job on less money than that.

The budget is rather boastful about adding up all the public works expenditures in one place and proposing to spend more than a billion dollars on public works in the fiscal year 1947. Even this figure only includes half the money authorized for public roads, practically none of that to be authorized for airports and none of the $300,000,000 authorized for rural electrification. Surely, during a period when we have so much private purchasing power available demanding to be used, we should hold back on public works and prepare the plans for the time when there is a tendency to reduce private spending. Our editors seem to have been sold on the theory that we should spend money on public works for the sake of spending and of making work. Unless we face a real depression, and obviously we do not for years, public works ought to be undertaken only because they are worthwhile and immediately required.

I have a different feeling about social welfare expenditures, undertaken to improve the condition of low income groups and not undertaken simply because of some crack-brain-economy theory that spending Government money can speed up the econom machine. The condition of these people as to medical care, housing and education ought to be improved in prosperous times when we can find the money. But we don't need to spend the billions which President Truman recommends.

Up to date, every recommendation that President Truman has made calls for more spending. He estimates that various programs he has recommended which have not been adopted will increase the budget during the next fiscal year by $3 billion. It is impossible to tell how this total is reached. There is every reason to believe that it is not sufficiently high. He has recommended increased unemployment insurance benefits to be paid by the Federal Government, involving the Federalization of unemployment compensation. He has recommended higher salaries for all Government employees, including the higher salaried positions, and raising all Congressmen and Senators, I might say, to $20,000 a year. He has recommended the extension of food subsidies after July 1. In this connection he points out that the abolition of subsidies would actually increase the cost of living by 3%. This he considers outrageous, although he has recommended in effect a further average 20% increase in wages and salaries. I do not quite see why the consumer should not pay this increase rather than the taxpayer. Certainly, there is just as much inflation in increasing Government debt as there is in increasing by 3% the cost of living.

He has recommended an increase in the domestic lending program of the Reconstruction Finance Corporation and other Government agencies. He has recommended an increase in the minimum wage by nearly 90% over the present statutory rate which took effect in 1940. He has recommended Missouri Valley Authorities, Arkansas Valley Authorities and Central Valley Authorities, reclamation projects everywhere and the rapid extension of public power. He has recommended Federal grants and aid to all local governments for all public works programs, something which was only done at the bottom of the depression for a few years. I have no objection to Federal grants and aid where there is a distinct Federal interest, but grants for all public works can only be justified on the theory that prosperity can be increased by more spending. He has recommended a compulsory health insurance program which will bring from $3 to $4 billion a year into the Federal treasury to be spent by the Federal Government in paying substantially all the doctors in the United States. I think it is fair to say that the President has fully adopted the Wallace theory that Government spending is a good thing in itself and that there need be no concern whatever as to the tax burden created thereby.

Lending Has the Same Effect as Spending

The President said in his message that in the fiscal year 1947 there would be no increase in the public debt. If this were true, the only reason is that we borrowed the money in November last year when we did not actually need it and can use the cash balance so created to pay the $4 billion deficit. But I do not think the statement is correct in any way. We have authorized the Government during the next 12 months to turn over $2.8 billion in gold and $1.25 billion in cash to the Bretton Woods Fund and Bank. We have authorized the Export-Import Bank to loan $2.8 billion. We are told that the Export-Import Bank will need additional funds. We are asked to loan the British over $3.75 billion of new money. Other countries are demanding loans and will be hard to refuse if the British loan is granted. These foreign expenditures are not all included as expenses, I suppose, because they will conceivably be repaid. But whether they are included as expenses or not, they certainly will increase the public debt, because we have to borrow the money in order to lend it. The same thing is true of some $300,000,000 which will be used for rural electrification which is not included in the expenses.

If the British loan is approved, we will then in effect have authorized the loaning abroad of about $12.5 billion; and that does not count the generous distributions through UNRRA and through the United States Army, which with the sums we should spend for Philippine rehabilitation, will total $5 or $6 billion more.

I am quite prepared to assist the devastated countries in starting their economic machinery, but it seems to me the time has come when we must recognize that further loans are simply adding to our Government expense. Loans made abroad by American banks to business concerns on a business basis will probably be repaid. But loans made by the Government to other Governments are most unlikely ever to be repaid, particularly if made in great size like those we are now considering. There is no legal way to collect a loan from a Government and the borrowing Government knows it. If a loan is so large that it constitutes a real burden on the people of a country, it will be repudiated as were the debts of the First World War. Furthermore, all this Government lending contributes as much to inflation as any spending. It places dollars in the hands of foreigners who rush with them to this country to buy the things they need and compete with the huge demand which has piled up here.

Government lending is just another form of Government spending. It must be in reasonable amounts if this country is going to live within its own income. The time has come to stop both Government spending and Government lending. If we continue on our present course there are only two alternatives, either our tax system will become so burdensome as to take all the life out of our system, check further expansion, and reduce production and employment, or we will go on with increasing deficits until we can balance the budget only by further inflation. Either course will bring the very hardship and depression which it is the supposed purpose of the full employment bill to avoid.

It is the duty of Congress to check both spending and lending. Whatever the economic justification for such action in hard times, there can be none when we have the greatest private purchasing power over our markets this country—or the world—has ever seen. We must return to sound fiscal policies in order to avoid inflation, booms and depressions. We must hold down expenses so that we can stimulate progress and industrial expansion. We must balance the budget, not to satisfy our New England conscience, but to insure a permanent condition of high-level production and high-level employment.

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which made such progress possible, rested upon the corner stones of private property, freedom of contract, freedom of enterprise, and freedom of exchange. These basic freedoms were exercised amidst a widespread belief in the virtues of free and fair competition, the generally-accepted theory and practice of government being that government should lay down and enforce such rules and regulations as were necessary to preserve and to insure such competition. Belief in the freedom and importance of the individual, regardless of inherited qualities or economic status, aside from the period and area of negro slavery in this country, gradually spread and probably has attained the highest degree of acceptability ever reached in any country in the history of the world.

II

Yet, in the face of these great attainments—the greatest that the world probably has ever seen—, the basic instruments that have made these accomplishments possible are now under severe attack by those who would offer devices for living that nowhere at any time in the world's history have ever enabled a people to attain the standard of living and the degree of freedom which these 157 years have brought to the people of these United States. Indeed, it is substantially accurate to say that although it has been the great institutions of individual freedom and private enterprise in this country that have been employed twice in the last twenty-eight years to rescue peoples and nations of Europe from the onslaughts of autocratic governments, we find vociferous groups urging that we replace these institutions of freedom with those of autocratic governments.

There are no lessons in history that justify the recent and current atempts to turn our country's clock of progress backward—back to the employment of devices that are known to be evil and a danger to the well-being of the individual and of a people in general.

The multitude of reasons for this reaction toward those things against which people throughout history have struggled to free themselves can perhaps be summarized under the general heading of a shortsighted view of events in the last thirty years. The economic depressions and dislocations caused chiefly, perhaps, by severe wars, seem to have caused many people to lose their perspective. In a situation in which such a large proportion of people, here and elsewhere, have been depressed, harassed, tired, and discouraged, political demagogues have found a fertile field which they have cultivated day and night. History seems to have been forgotten, or not understood, or misinterpreted. The politically ambitious saw an opportunity to elevate themselves, to become bosses, to exercise power they never had before and probably never expected to have. Dictatorships sprang up abroad and an unprecedented march toward an unconstitutional, totalitarian form of central government developed—even in this country. Slogans, promises, programs, and policies were made to fit the needs of the rulers who did all in their power to keep themselves in positions of authority.

The ambitions of these autocrats soon clashed and they led their people into the most widespread and destructive war that the world has even seen. In no nation did the people as individuals have an opportunity to vote for or against this war. Their rulers decided for them. The liberties of people, already sharply curtailed by autocratic dictatorship, were progressively and rapidly reduced to something approaching zero. Millions had no choice but to lose their lives. Savings of a lifetime and of generations have been swept away. Destruction and waste have seared the face of the globe. Debt has been saddled on the living to an extent never before seen. Taxation has become heavy and destructive. Bitterness and hate and despair escape few people and homes anywhere on this earth. This is the scourge that autocratic leaders in government have brought to millions and millions of people in this world in recent decades.

III

And yet the basic lessons in these events seem to be lost on those who keep clamoring for more, not less, central government, and for less, not more, freedom for the individual. Today, in this country, we are experiencing a sharp conflict between those who clamor for more government Socialist, Communist, or totalitarian in some form—and less, or no, private enterprise, and those who want to arrest this trend and to work for greater freedom for the individual and a continuation of the progress, with improvement, that we have experienced through most of our last 157 years.

IV

This conflict raises questions as to what is the proper aim of any social organization, and what is a good type of government.

(a) It seems reasonably clear that no social organization is good if it does not, in addition to contributing to the material well-being of a people in general, protect and foster individual liberty.

For centuries, people have fought perhaps as strenuously for liberty as for material goods. One may find food, shelter, clothes, safety, and security within the walls of a prison, but at the price of liberty. Many men have sacrificed all their worldly goods, and even their lives, to obtain freedom. Individual liberty has in general been considered a priceless heritage. It has been man's perpetual aspiration. He has struggled for ages to enlarge the scope of individual liberty, including the freedom necessary to develop his personality to the limits of his physical and mental capacities and to safeguard the same freedom for his fellows. The justice and desirability of such freedom are recognized by all truly enlightened and free people. When we curb this freedom, we take a step backward. When we find new ways to enlarge this freedom, we progress.

Such freedom recognizes, above all things, the sacredness of one's personality. Probably every important religion in the world has recognized and clung to this great fact. It ran like a theme through the teachings of Christ. It lies at the bottom of that fine courtesy with which the refined person deals with his fellow men. It is probably one of the most vitally fundamental elements that make human existence worth while.

(b) Other aspects of a good social organization appear by implication as we examine the criteria of a good government which can be good only if it protects, fosters, and operates within the limits of, a good social organization.

V

It seems reasonably clear that a government cannot aid in raising the general level of living in society and protect and enlarge the scope of individual liberty unless it fosters free and fair competition.

Human beings apparently have never devised a better means of encouraging individual development and social progress than by fostering equality of competition, impelled by the profit motive, and by providing at the same time the means of protecting the weak against the strong. There is probably no better means of determining the social value and proper prices of commodities and services than free and fair competition. But free competition of itself is not enough; it also must be fair. And fairness of competition implies either equality in strength or conformity to what appears to be fair rules of competition when the competitors are of unequal strength. The test of the fairness of these rules is found in whether or not they tend to foster the conditions that would prevail if the competitors had equal strength in competition. It seems quite clear that most if not all deviations from this principle by governments have been injurious to social well-being.

The application of this principle requires that monopolies be regulated, to the end that the conditions of free competition may prevail; that the weak be protected against the strong, to the end that that competition may be fair; that prices, with certain exceptions, be neither fixed nor controlled but the results of this free and fair competition, to the end that they may reflect accurately society's appraisal of the value to it of these goods and services.

The appropriate exceptions to the rule against price fixing are found in the necessity for the government to fix (a) the weight of, and consequently the price for, the metallic unit used as a standard in its monetary system, and (b) the rates charged by public and private monopolies which are permitted to operate in lieu of competitive enterprises. It is probably desirable, also, for a government, in time of war, to fix prices of those products in which a rise in prices will not bring an increase in production.

Free and fair competition cannot function properly unless there is both economic and political democracy. In a political democracy, the individual is free to cast his political votes as he thinks best.

In an economic democracy, the individual is free to vote his dollars as he prefers. Democracy is incomplete in so far as either of these aspects is impaired, and neither can operate well if the other is restricted in any considerable degree.

On all sides today we see how our economic democracy has been impaired—how our freedom to spend our dollars for goods and services has been curbed. Taxes take from us by compulsion much that we would like to use in our own interests or as our desires suggest. Rationing and price-fixing, and the inability to get the customary goods and services, have placed sharp limits upon the proper operation of economic democracy in this country. And, as one considers how the taxpayers' funds have been used by our government, it should be easy to understand in what respects this impairment of our economic democracy has also impaired our political democracy.

No government, no government organization, no government bureaucrat or collection of bureaucrats can begin to compare in efficiency or in intelligence with the mass of people who are free to vote their dollars as they think best. Producers can never obtain better guidance than that given when all buyers are free to spend their dollars for this and withhold them from that. Buyers can never be served as well as when they can vote their dollars as they please and when producers must respond to these indicated preferences. Apparently every departure from this method of buying and selling injects elements of inefficiency, waste, and maladjustemnt. A heavy burden of proof rests upon those who, in periods other than war time, when maladjustments and regimentation are the order of the day, would interfere with the free operation of economic, as well as political, democracy.

The power of one individual over another is an insidious and corrupting thing. It places a great responsibility upon the person with whom the power rests. Where economic and political democracy operate freely and fully, the power of one individual over another is sharply curbed. Power is widely diffused, and it is difficult to concentrate it if economic and political democracy have free play. Furthermore the system of incentives, instead of government compulsion, plays its beneficent role.

VI

An enlightened government, earnestly striving to increase the well-being of society, will recognize and conform to the fact that society is a cooperative enterprise.

All agents engaged in the production, exchange, and consumption of goods and services, and in the distribution of the national income both compete and cooperate with one another. In production, employers, employees, and owners of natural resources and capital equipment must cooperate. All are necessary, and it is as futile to argue that one of these agents of production is more important than the others as it would be to contend that any one leg of a four-leg table is more important than the other three.

The better the cooperation among the agents of production and consumption, the better is the well-being of society promoted. A fostering of free and fair competition does not militate against such cooperation. Indeed, the converse is true. The smoother the competition, the more effective is the cooperation. Cooperation, under conditions of free and fair competition, becomes practically automatic and largely devoid of conscious effort. When competition operates less freely and less fairly, cooperation becomes more difficult and requires a progressively greater amount of conscious effort.

In this country today we have a government that has allied itself largely with one agency of production—the employee group. It has set itself as the champion and friend of the job receiver and job seeker, and as the disciplinarian, if not the enemy, of the job provider. In large degree, government compulsion has replaced encouragement of incentive. The task of the job provider has been made harder, not easier. Class struggle and social and economic disruption, not cooperation, are some of the results. Today we have a situation in which one labor leader says we cannot have coal, another says we cannot have steel, another says we cannot have automobiles, another says we cannot have foreign music, another says we cannot have bus transportation, another says we cannot have telephone or telegraph service, and so on and on this sort of dictation continues and spreads. Probably no one can now say with any assurance where it all may lead. But its unfortunate aspects should be obvious to all mature and thoughtful people. It is a manifestation of the consequences naturally flowing from the enthronement of demagogic politics in this country. High-minded, neutral, even-handed, and intelligent statesmanship is for the present practically dead in this country in so far as its effectiveness is concerned. A relatively small group of genuine statesmen in Washington and outside have been and still are fighting valiantly for even-handed justice and a cooperative society as against a government that allies itself with one group and fosters a class struggle, but these statesmen are fighting with their backs to the wall. Whether they can win ultimately against the multitudinous devices that characterize the huge and far-reaching demagogic political monster that now holds our people in its grip and is sucking the nation's life-giving blood away seems to be an open question.

VII

A good government will provide those agencies that ensure peace. Cooperation among the agents of production, exchange, and consumption and in sharing the national income requires peace. When conflicts of interest appear, they must be eliminated quickly by means of devices that will provide justice and mercy, and restore peace. In general, this means that courts must be provided to which people with conflicting interests may repair, since adjudication offers more promise of ensuring justice than does resort to force, except as used by the State to enforce those of its laws which are based upon the principles of equal justice for all, mercy, and peace.

In recognition of these facts, a good government will never cease cultivating and improving upon the devices and rules which aid cooperation and a better understanding of its necessity and virtues. It will always occupy a neutral position with respect to the importance or interests of any one of the classes of the agents of production in recognition of the fact that all are necessary, that all must cooperate, that all are equally entitled to justice, and that this justice probably can be obtained in no better way than through the smooth operation of free and fair competition and the consequent automatic and largely unconscious cooperation.

As a part of the class struggle, in which the majority of the Federal government and most labor leaders, Socialists, and Communists are pitted against our other social groups, we find widespread acceptance of the common assertion that strikes must not be prohibited. If intelligence is superior to brute force, then the notion that there is some valid defense for strikes or lockouts or picketing or some similar and related manifestations of force is without any rational foundation. The current fetish that provisions for strikes can be defended is a sad commentary on human intelligence and the state of our civilization.

In practically all but two fields of human activity we as a supposedly intelligent people have worked steadily to end trial by battle. Our courts are supposed to be a monument to the substitution of intelligence for force; and these courts in many respects are authorized to reach into the innermost aspects of our private lives.

But in two large areas, we have persisted in retaining the primitive system of trial by battle: One is in our international relations, and at present we are hoping that the instruments of peace and justice will finally be substituted for war. The other is the field of industrial or labor relations. But here we seem to be doing little or nothing beyond fostering warfare. There is nothing good that can be said for this manifestation of human stupidity. An objective look at our policies, practices, and warfare in the field of industrial relations should reveal that in so far as fundamentals are concerned we have not risen, in this field, much, if any, above the practices of the lower animals and primitive men.

VIII

A good government will exercise only those powers granted to it by the people being governed. The State is the organic agent of society, created by that society to promote its best interests. Thus a government which is granted powers, usually in the form of a constitution, for the purpose of aiding society in attaining its aims, cannot step beyond the scope of the authority granted it by the society from which its powers are derived without ceasing to be a good government. Briefly stated, a good government will be a constitutional government. It will neither exercise powers nor engage in interferences with social practices when such governmental acts exceed the provisions of the organic law according to which society has decided that it expects its government to be guided.

Much has been written and said about the extent to which we have departed from constitutional government in this country. It is popular, today, to deplore any raising of questions about departures from our Federal Constitution. Some even say that Constitutional Law is dead. Any group of citizens organized to press for a return to constitutional government are likely to be jeered and attacked and ridiculed. Oaths taken by government offcials to abide by and to uphold the Constitution appear to have lost their original meaning. Their violation is ignored or laughed at or excused by cynical and supposedly smart retorts. Much of this cynicism and low regard for the pledged word in high places has diffused itself in a multitude of ways throughout our nation. Belief in the vital importance of honor and of honorable dealings among men seems to have suffered a severe decline in popular acceptance. Cynicism and dishonorable dealings, cheating and lying and stealing are rampant. A large proportion of this moral and ethical slump seems to have stemmed from government policies whose authors have flouted our Constitution, ignored their oaths, and violated almost every known standard of intellectual honesty and moral integrity.

IX

A good government will undertake no activities that can be performed as well or better by private individuals or associations. A fundamental purpose of government is to provide society with the regulations and the enforcement of these regulations, which this society desires, as a means of protecting individuals in their efforts to live and to make a living. People do not wish to be deprived of opportunities to gain a livelihood, and they do not, in principle, willingly organize an agency which will deprive them of these oportunities.

Those who regard this principle as questionable, or who suggest that the State should be free at its option to compete with, or to enter into "partnership" with, the people who provide it with its authority, open the door to Socialism—a form of government which cannot meet the objective tests as to what constitutes good government. Unless this principle is recognized and adhered to, we have no criterion by which we can define the extent to which a government may appropriately enter into competition with citizens or deprive them of their opportunities to make a living without being employees of the State.

When a State enters into competition with its citizens, or creates a government monopoly in a business in which private enterprise could be as efficient or more efficient than the State, it substitutes government monopoly or ownership for regulation. This is an admission that, as a regulative agent, it has been unsuccessful. Yet the government's function is to regulate, not to own, business; and, ownership and operation of a business by a government are more difficult and create more problems for all concerned than does government regulation. Governments rarely count with any high degree of accuracy their costs of doing business; their losses are levied upon the tapayers; the forces which usually exact penalties for inefficency in management and in service practically cease to operate; and society suffers as a consequence.

There are limits beyond which cooperative activities through the agency of the State bring more disadvantages than advantages; and it is at this point that the State should cease its efforts to act for the people as their cooperative agent.

A very large proportion of human activities can, with great advantage to all, be left to private arrangements in which people are free to enter into contract; to exercise their ingenuity in production, invention, and discovery; to pursue their pleasure in music, art, literature, entertainment, and recreation; to choose their friends and associates through the organization of clubs, fraternities, partnerships, and similar organizations; to organize for religious purposes their churches, synagogues, cathedrals, and tabernacles; to pursue knowledge through the establishment of educational institutions; to save by creating savings and insurance institutions; to engage in humanitarian activities by establishing hospitals, the Red Cross, foundations, and eleemosynary institutions.

Government is not an end; it is a means. Its function is to serve the society which creates it.

X

A good government will seek competent advice on intricate matters. Every government is confronted with a wide variety of questions. They may involve matters falling into the provinces of chemistry, physics, geology, mechanical engineering, hydroelectric engineering, civil engineering, naval and military affairs, economics, constitutional law, insurance, and so on. No government is wise, nor is it pursuing the proper course, when it submits questions of chemistry to those who are not competent chemists, or engineering questions to others than competent engineers, or economic questions to other than competent economists.

In the fields of the exact sciences, this principle is ordinarily recognized, but often, if not usually, matters of economics, such as questions involving money and banking, tariffs, public finance, labor, agriculture, public utilities, and transportation, are not submitted to economists and others having long and practical experience in these matters but to the general public. Some economic questions are as intricate in nature as those in the fields of the so-called exact sciences, and the period of training required of the economist before he is competent to render valuable opinions regarding the best solutions may be even longer than that required of the chemist or high-grade physician. Nevertheless, these are facts often overlooked by government officials. Because the economist uses common language, rather than such specialized symbols as those characterizing chemistry, the layman generally supposes that he is automatically admitted to an understanding of most or all economic principles. Consequently governments, unless they are very wise, often arrive at their answers to, and policies regarding, economic questions of major importance, not by consulting the most competent and objective economists, but by arranging for the general public to vote upon the issues or by submitting the questions to a group who may call themselves economists but who may in fact be nothing but devisers of, and agitators for, the policies which they think will help the government, of which they are a part, to remain in power. The same is true of important and really intricate matters in constitutional law, sociology, political science, and international law.

It is the duty of an intelligent government to submit all such questions to the best trained people at its dlisposal and then to take appropriate steps to inform the general public regarding these matters of which a very large proportion of the people have no clear understanding. A government becomes particularly untrustworthy, and even extremely dangerous, as an agent of the people, when it not only submits involved questions to the incompetent general public for a vote on what the answers should be but goes even further and appeals to the emotions of the untutored people, or enters into a deal with groups having large voting strength, in an effort to obtain a vote that will maintain the party in power, even though this be at the expense of the national welfare.

In early times, when a pestilence appeared, some savage tribes would beat their tom-toms to drive away the evil spirits. In modern times, we have learned to call in medical authorities when a pestilence strikes us; we do not use tom-toms; neither do we vote on the issue. But in matters of economics, sociology, and political science, we are hardly safely beyond the tom-tom stage in the devices used to arrive at the supposed solutions to the problems involved. We contrive to vote on many of these issues, and pretend that we have voted intelligently on them. Before we cast our votes the political tom-toms beat, the public is stirred, if possible, into an emotional frenzy, flags wave, slogans are used to hypnotize, agitators and voters march and sing and shout, the demagogues and patent medicine men orate and praise and condemn, the scientists hang their heads in shame. Then the votes are cast, and the word goes out that the correct answer has been given. This voting is widely supposed to solve all problems no matter how intricate or technical they may be. Those in power speak of a mandate, and this mandate is not only assumed to be specific and wise but it is often stretched to satisfy some caprice of those in power.

Resort to these devices reflects badly upon the government which employs them, and the dangers to society that are involved in their use are incalculable. When a government indulges in such practices, the intellectual resources of a country are not properly util-

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ized, the methods employed are almost certain to lead to the wrong answers and policies, the government ceases to be a reliable agent of the people, and the prospects of ensuring the effective functioning of a representative government are seriously impaired.

To submit intricate questions to the untutored rather than to the tutored is social folly; and to legislate for the benefit of pressure groups and in accordance with the strength of their pressure is equally indefensible. Both methods of developing government policies and solutions cnostitute a social cancer which slowly undermines good government, impairs social health, and retards human progress. Indeed, it may set in motion forces sufficient to lead the nation into a period of social retrogression and disintegration. There are many thoughtful people who believe that we are moving in this direction.

Until the basic criteria as to what constitutes a good social organization and a good government in relation to that organization are clearly understood and accepted, it becomes extremely difficult to enter upon a profitable examination of whether this or that activity should be undertaken by private enterprise or by government, or whether certain regulatory devices of government are wise or unwise. Furthermore, even with accepted criteria before us, there appear to be a considerable number of problems regarding which their closest students find it difficult, becouse of inadequate evidence, to state with a high degree of assurance what the best or proper answer is. It is for these reasons that the several large issues now confronting this country are passed over here in deference to an examination of some basic principles against which it would seem that these problems should be viewed as we examine them one after another.

XI

In our drift away from these criteria of a proper social organization and a good type of government—assuming the soundness of these criteria—, another phenomenon has become conspicuous: It is the reliance of our people upon laws—not law, but laws—to solve their problems, whether business or otherwise.

When difficulties arise, the first reaction of people, in general, is that a law should be passed. There appears to be an increasing tendency to pass more and more laws with respect to more and more things. This has become strikingly true of the Federal government. At some sessions of Congress a thousand or more laws are passed. The accumulation of statutes, particularly during recent years, is one of the amazing commentaries on modern times. Our present faith in the efficacy of lawmaking, especially in the value of thousands of laws that are neither read nor understood by a large proportion of our people, presents a problem for the social psychologist. We are being swamped with laws; we have so many on our statute books that we do not know what they are; the general public makes no pretense of reading them; we do not know when we are violating or obeying them, and yet there is a persistent clamor for more.

We are living in a period of frenzied legislation, the vague notion or superstition being that if only we can pass a law—its economic soundness often being not a paramount consideration—our problem or problems will be solved and we shall be saved from our troubles.

One may advance several plausible reasons for this remarkable faith in the virtues of statutes that are neither read nor understood generally. Among these reasons may be an undermined confidence in the virtues of competition and self-reliance, and a lack of understanding and perspective regarding the unwise acts of governments in contributing to economic and social maladjustments. Whatever the reason may be, we seem to have become a nation of law worshipers.

At the same time, these laws are slowly breaking our backs. They have brought upon us greater costs; heavier taxation; an unprecedented and mounting public debt; more governmental supervision; a growth in bureaucracy; a pronounced trend toward personal government; a development of class consciousness, class strife, and class hatred; a startling spread of demagoguery in politics; a serious decline in objective statesmanship; an insidious attack upon the virtues of hard work, thrift, and self-reliance; a conspicuous disregard for economic principles; a growing and disturbing complexity in life and business; a loss of freedom in many directions; a widespread pessimism and fear regarding the future; and the consequent development of a great weight which is bearing down more heavily upon us each year. The question arises as to whether in the end of this piling of law upon law may not crush much or all that is worth while and healthy in our economic, social, and political life. Indeed, the increasing burden of these laws, combined with the danger of impairing our public credit and with numerous other forces now undermining our national well-being, may prove to be the principal factor which will destroy our republican form of government and throw this nation back to some form of autocracy.

XII

Connected with our unfortunate, if not dangerous, drift away from the principles of good government and our remarkable reliance upon statutes to solve our problems is a widespread notion that both developments are symptomatic of progress. Often they are pointed to as marks of liberalism in this country.

The fact seems to be that they are indicative, rather, of an insidious social disease which is slowly undermining our general social health and well-being, and pointing toward some form of social retrogression. They clearly indicate an increasing amount of coercion, much of which is undoubtedly of an undesirable sort.

Time and experience have made it amply clear that those things which do not raise the general level of living, and which impair, rather than enlarge, the freedom of the individual, are retrogressive in nature. Most unfortunately, this spreading spirit of coercion and retrogression, in recent years and today is frequently called **liberalism**, and the advocates of this coercion and authoritarianism often call themselves **Liberals**. But this reversion to coercion is the antithesis of liberalism; it is illiberalism and retrogression. The philosophy of these self-styled, but false, Liberals is that the individual must be regimented for his own sake—a philosophy that has characterized tyrants, dictators, and coercionists throughout human history. True liberalism has been associated with that long, painful struggle of humanity to free itself from regimentation, coercion, and authoritarianism.

People today—in the United States as well as in Europe—have fallen under the spell of words. Label a thing **liberal**, and the unthinking people will follow, advocate, or pursue it as though hypnotised. Label a thing conservative or reactionary, and they will mark it down as bad at once. The gullibility revealed is amazing; the faith in labels is tragic.

People in general do not stop to ask the self-styled **Liberal** what it is that he is liberal about. Often it sems to center chiefly in distributing other people's money among himself and his friends. Nor is the **Conservative** often asked what it is that he wishes to conserve. There is little concern about the possibility that he may wish to conserve the very things that contribute most to the general welfare. Nor do many people seem to pause today to consider the possibility that the **Reactionary** may be reacting against corruption, dishonesty, and stupidity. We prefer to read our labels and run rather than to distinguish between poorly-considered emotions and careful thinking.

In recognition of the widespread thoughtless reliance upon labels, the word **liberal** has been dissociated from its historic meaning. Today it is a vague word used by Socialists, Communists, advocates of so-called government planning, and by a variety of others who are trying to lead the people of the United States back along the path toward autocratic government, with its increased coercion of the individual, and social retrogression.

XIII

The battle in this country today is between those, on the one hand, who are clamoring for more government coercion and are trying to head this nation in the direction of social retrogression and those, on the other hand, who are fighting for an improvement in our economic and social well-being by protecting and widening, if possible, the scope of individual freedom; who are fighting for a wider recognition of the sacredness of the individual personality; for free and fair competition, with monopoly watched and controlled; for political and economic democracy; and for a constitutional government that will operate in accordance with the standards of goodness which have been presented here so briefly and, of necessity, inadequately.

N. Y. Curb Affiliates Report Net Increase

The New York Curb Exchange and its affiliates, New York Curb Exchange Realty Associates, Inc., and New York Curb Exchange Securities Clearing Corporation, showed a net increase for 1945 of $317,165 as against $143,169 for 1944. Income of $1,341,026 last year exceeded expenses by $208,-914. Excess of income over expenses in 1944 was $74,512. The Securities Clearing Corporation's 1945 income of $347,622 was $156,-470 more than the amount realized in 1944. Telephone quotation service gross income was $74,656, up $15,869 from 1944. Listing fees rose $54,084 to $85,751, and ticker royalties improved by $6,387 to $25,391. Rent revenue also improved with income for 1945 from that source totaling $135,166, compared with $132,725 in 1944.

It is added that total expenses for 1945 were $1,132,112 up $198,-365 over 1944. Salaries, the largest item of expense, rose $164,888 to $606,182. Legal fees were also higher, $69,862 in 1945, compared to $44,389 in 1944.

Current assets at the close of 1945 were $720,765, of which $667,321 was in cash. In addition, the Exchange has an investment of $750,000 in U. S. Treasury obligations, accrued interest on which, at Dec. 31, last, was $802. Current liabilities were $116,451. Net equity of the 499 regular memberships as the end of 1945 was $5,174,557 or $10,370 for each seat as against respective figures in 1944 of $4,857,393 and $9,734.

The mortgage on the Exchange was reduced by $120,000 during 1945, and at Dec. 31, last, was $400,000.

Britain As Lender

(Continued from first page)

to part with dollars by granting a foreign loan that is freely convertible into dollars. Yet the Foreign Secretary emphatically declared that no restrictions would be imposed on the use of the loan to Greece.

This is not an isolated instance of financial transactions with foreign Government liable to affect unfavorably the British foreign exchange reserve. During the war a £25,000,000 loan was granted to China, and part of the amount was available for Chinese purchase outside the United Kingdom. Nor is the use of the British contribution to UNRRA confined to the purchase of British goods. Above all, there was the Financial Agreement concluded with France last year, under which France obtained a sterling credit of £100,000,000, part of which could be spent in the Sterling Area. And even if the whole of it had to be spent in Britain it would have affected adversely the exchange position. The amounts of British goods available for export is limited, and should be sold for cash, not against credit. It is true, France has to pay in gold for one-third of the amount of her debt; but had the goods been exported to other countries the British foreign exchange reserve would have benefited to the extent of considerably more than one-third of the amount involved.

Admittedly, in each of the above instances a strong case could be made out in favor of being generous. A relatively moderate amount of financial support to Greece might make all the difference between stability and anarchy in that key country. China certainly deserved all the support she could get. The activities of UNRRA are vital for the survival of European civilization, and the United States cannot reasonably be expected to bear the entire burden. Finally, France is Britain's closet friend in Europe, and it was essential to cement Anglo-French relations and at the same time to help France to consolidate its position.

Having admitted all this, it is nevertheless necessary to ask: Can Britain afford it? These four acts of generosity—and there are others besides—must have cost Britain quite an appreciable loss of foreign exchange. This at a time when Britain itself has become the largest debtor nation in history, and when the British trade balance shows a huge deficit, to be covered by further borrowing. One is tempted to conclude that Britain has not yet fully realized that after having played the part of a lending nation for centuries, it has become a borrowing nation. Perhaps this is yet another piece of evidence showing that Britons never know when they are beaten.

As a matter of fact, the amounts involved in the foreign transactions mentioned above are insignificant compared with the loss of foreign exchange Britain exposes itself by accepting the policy of multilateral trade based on the free convertibility of sterling. In existing conditions a very large proportion of the trade deficit automatically leads to a further increase of the foreign sterling balances. As these balances are not freely convertible, their increase does not result in a decline of the foreign exchange reserve. Should sterling become convertible—as indeed it will become twelve months after the ratification of the Washington Agreement—then a very large proportion of the sterling balances obtained in payment for export surpluses to Britain would be converted into dollars and other currencies. This would of course affect the British foreign exchange reserve in precisely the same way as the granting of foreign loans, only on an infinitely larger scale.

To what extent are recipients of sterling—Whether through granting of loans or through British purchases of their goods—likely to avail themselves of their right to convert their sterling into other currencies? This depends mainly on two factors: (1) To what extent will Britain be able to deliver goods wanted by foreign holders of sterling? (2) To what extent will British goods be able to compete with American and other overseas goods?

The reconversion of British industries for peace-time requirements is making slow but steady progress. And internal consumption is kept down with iron hands, in order to be able to export. In the West End of London it is difficult to buy certain types of hats, because the entire supply has been exported. Travelers returning from Scandinavia say that shop windows there are packed with British goods the likes of which have not been seen at home for years. If this policy of austerity can be maintained in spite of its unpopularity, then the increase of British production of civilian goods will certainly lead to increased exports during the period of world-wide scarcity of goods.

Once the scarcity has been relieved, however, continued exporting capacity will depend on relative costs of production. In this respect the outlook is utterly uncertain. Wages are rising everywhere, but he who ventures a forecast of their relative rise in Britain and the United States is a very bold prophet indeed. It is therefore entirely impossible to foresee the extent to which the restoration of the convertibility of sterling obtained through British foreign loans and British import surpluses will lead to a decline of the British foreign exchange reserve. In such circumstances the granting of foreign loans seems very much like issuing a check without knowing whether there is a balance in the bank to meet it.

Wilbur Frederking Is With Earl G. Fridley

HOUSTON, TEXAS—Wilbur H. Frederking has been released from active duty in the armed forces and will be associated with Earl G. Fridley Co., First National Bank Building. Mr. Frederking in the past was with A. W. Snyder & Co., Inc., of Houston, and was manager of the trading department for the Metropolitan St. Louis Co. Prior thereto he had been with the Mercantile-Commerce Bank & Trust Co. of St. Louis.

Money in Circulation

The Treasury Department in Washington has issued its customary monthly statement showing the amount of money in circulation after deducting the money held in the U. S. Treasury and by Federal Reserve Banks and agents. The figures this time are those of Dec. 31, 1945, and show that the money in circulation at that date (including of course, that held in bank, vaults of member banks of the Federal Reserve System) was $28,514,518,195 as against $28,210,962,369 on Nov. 30, 1945, and $25,307,152,635 on Dec. 31, 1944, and compares with $5,-698,214,612 on Oct. 31, 1920. Just before the outbreak of the first World War, that is, on June 30, 1914, the total was $3,459,434,174.

The Course of Our Foreign Policy

(Continued from page 837)

fighting for democracy. It was for this that our fellow citizens suffered and died in battle. If we do not establish the principles for which we fought it will be because we are strong in war but weak in conference. Our Foreign Service is weak.

America's Foreign Policy

Let us state a few fundamentals. In the American Declaration of Independence our forefathers pledged this nation to the support of governments "deriving their just powers from the consent of the governed." That principle is the very bedrock of American democracy. That principle coupled with free enterprise has made the United States the most successful political and economic unit on earth. Neither our economic system nor our government is perfect. For 170 years the American people have been endeavoring to improve both our political institutions and our economic system. But we can truthfully say today that notwithstanding all the faults of our economic system and our government, the American people do enjoy freedom of conscience, freedom of press, freedom of speech, the right of free assembly, a fair administration of justice, the greatest school system in the world, the right of collective bargaining by organized labor and the highest standard of living enjoyed by any people anywhere. Even so, we do have a more equitable distribution of wealth than any other nation. At times it appears to us that our system of government is not working well. We should remember, however, that human nature itself is not perfect and, therefore, human beings do not create perfect institutions.

Let us now make a short summary of the unrivaled achievements of the American system of economy and government during the late war. Industry was mobilized, the economic war load was intelligently distributed, the war resources of the nation were quickly developed, price control was reasonably effective, inflation to a great degree was prevented, unprecedented scientific achievements were attained, mechanical development surpassed all past records. All these items, together with the loyalty and efficiency of the war workers, the unfaltering, clear-headed leadership of management, free labor, free enterprise, healthy competition, combined to evolve the production miracle of the age. Add to our production achievement the marshaling, training and equipping of soldiers, the strategy and tactics of our military leaders, the intelligence, physical stamina and matchless valor of the men who won victory after victory—all these things put together made an imperishable record of America's military and productive strength. The world respects the power of the United States and the institutions under which that power was developed. But let us realize that American principles and ideals and objectives had rallied the freedom-loving people of the world to the cause for which we were fighting before the impact of our productivity and our fighting men had registered in full force on the battle fronts. America is strong both physically and spiritually. Let us be realistic. Our productive strength is a force in the world but our principles make this American unit of government the heir of all the ages in the foremost files of time.

With these basic facts in view, let us examine the principles for which we claimed we were fighting in two World Wars.

Our announced foreign policy in the first World War was "to make the world safe for democracy." That slogan was elaborated for the second World War by a definite statement of principles in the Atlantic Charter and the Iran Declaration. We won both wars but we have not yet established the principles for which we said we were fighting.

The Atlantic Charter

The Atlantic Charter, issued by Prime Minister Churchill and President Roosevelt, for Great Britain and the United States, on Aug. 14, 1941, pledged both nations among other things to the following principles:

"Their countries seek no aggrandisement, territorial or other;

"They respect the right of all peoples to choose the form of government under which they will live;

"They will endeavor, with due respect for their existing obligations, to further the enjoyment by all States, great or small, victor or vanquished, of ACCESS, ON EQUAL TERMS, to the trade and to the raw materials of the world which are needed for their economic prosperity."

I am aware that some question has been raised as to the validity of the Atlantic Charter.

When President Roosevelt arrived in Cairo for the Cairo Conference before going to Teheran, I suggested to him that the speeches made by our distinguished friend Winston Churchill and others in America seemed to indicate that we were departing from the objectives and principles recited in the Atlantic Charter.

I suggested that the Teheran Conference, at which Marshal Stalin would be present, should adopt a new declaration. President Roosevelt charged me with the responsibility of writing or supervising the writing of the draft of what became the Iran Declaration, which was adopted by the Teheran Conference on Dec. 1, 1943. That Declaration is in part as follows:

"The Governments of the United States, the U.S.S.R., and the United Kingdom are at one with the Government of Iran in their desire for the maintenance of the independent sovereignty and territorial integrity of Iran. They count upon the participation of Iran, together with all other peace-loving nations, in the establishment of international peace, security and prosperity after the war. IN ACCORDANCE WITH THE PRINCIPLES OF THE ATLANTIC CHARTER, TO WHICH ALL FOUR GOVERNMENTS HAVE SUBSCRIBED."

This is unquestionably a reaffirmation of the principles of the Atlantic Charter. The Iran Declaration was signed for the United Kingdom by Winston S. Churchill, for Russia by J. V. Stalin, and for the United States by Franklin D. Roosevelt.

This will convince you gentlemen of the fact that at least up to the close of the Teheran Conference the principles, ideals and objectives for which we claimed we were fighting were clear. Up to the Teheran Conference we certainly were fighting for the principles of democracy and free enterprise all over the world. We were fighting for the rights of man. We were not fighting to promote Russian territorial aggrandizement or imperialism or colonial imperialism and monopoly.

I am aware that in the foregoing statement I seem to be opposing not only Japanese, German, and Italian imperialism, but also the imperialism of our allies, the Russians, the Dutch, the French, the British and the Belgians. In extenuation of French, Dutch, British and Belgian imperialism it has been said that these empires are comparatively poor and in some instances overpopulated at home and without colonial imperialism and monopoly they would be impoverished. That is probably correct. Nevertheless, it does raise the question that has plagued mankind throughout the centuries: Do the ambitions, the desires or the necessities of one nation justify the transgression of the rights of other nations and other people? With the approval of both Russia and Britain that question was answered conclusively in the Atlantic Charter and the Iran Declaration.

We should not subscribe to a surrender of the principles that were agreed to by both Britain and Russia and for which we asked our comrades to die in battles all over the world.

This is the point. In China we understood the principles for which we were fighting and we fought everyone, including our own career diplomats who either did not understand or would not support these principles.

In China we did not surrender our principles. We supported the establishment of a free, united, democratic government. Not only this—while we upheld the national government and the unification of China during the war we consistently labored, and to a great extent succeeded, in pointing the way to the liberalization of the national government. China cooperated.

The Present Status of Our Foreign Policy

President Truman's 12-point foreign policy formula departs in some details from the Atlantic Charter and the Iran Declaration. I am convinced that the President made these modifications to cover the position in which he found himself by reason of secret commitments that were not made by him. I am convinced that President Truman intends to make our foreign policy more workable in the light of the departure from the principles of the Atlantic Charter and the Iran Declaration and in light of secret commitments which were made before he became Chief Executive. I see in his public statement of policy a determination to maintain generally the principal objectives for which we said we were fighting.

Departures from the Fundamental Principles of the American Foreign Policy

The first weakness in the American position appeared in our appeasement of the very principles against which we claimed to be fighting. This is indicated by our tendency in diplomacy to assume that the only way to obtain world cooperation is by the lavish giving-away of America's resources and the surrendering of her principles. It is not necessary for us to surrender fundamental principles to obtain cooperation. Imperialism and Communism should make the concessions to democracy to which they have heretofore agreed.

One of the chief weaknesses in our foreign policy is the result of confusion, lack of clear directive, and lack of discipline prevailing in the State Department. Some of the elements in the State Department are working at cross purposes. Some tend to be sympathetic toward the objectives of Russian imperialism and Communism, while others tend to be complacent toward or to support colonial imperialism and monopoly. Confusion also was caused during the war by the hydra-headed economic agencies, several of which made commitments without proper coordination with the diplomatic foreign policy.

At Yalta, in secret agreement, which may now be told, America surrendered the first principle of the Atlantic Charter and the Iran Declaration, which is that the Big Three nations would seek "no aggrandizement, territorial or other."

The second indication of surrender of our principles was at San Francisco when we agreed to trusteeships for dependent people, not by the United Nations but by the colonial powers, in violation of the commitment by the Big Four that "they respect the rights of all people to choose the form of government under which they will live."

We all recognize that some of the more than a billion people now controlled by colonial imperialism from the West Coast of Africa, through Egypt, the Middle East, India, Burma, Indo-China, the Malay States and Dutch Indonesia are not in a position and perhaps many of them do not have the qualifications to choose, at this time, the form of government under which they will live. But this is no reason why the United Nations trusteeship for these dependent people should be given to the powers which now control them instead of to the United Nations Organization. The colonial people should at least be allowed to keep the hope to aspire to self-government and eventual independence. Instead they have been left as completely subject to colonial imperialism and monopoly as they were when the Atlantic Charter was promulgated. Some of these colonial people have revolted and are attempting to set up for themselves the form of government under which they desire to live, in accordance with the principles of the Atlantic Charter, to which all the nations had subscribed.

In certain areas the colonial powers are using American lend-lease equipment for the purpose of resubjugating revolutionists. All our State Department did in that situation was to tell the colonial imperialists to remove or obliterate American emblems or brands on the American munitions and equipment which were being used to defeat one of the principles for which we had all declared we were fighting.

We departed from our principles at San Francisco when we permitted the United Nations Charter to contain a provision authorizing the power of veto by one nation. Under that provision any one of the Big Five, Russia, France, Britain, China or the United States may nullify the will of all the other people of the world. That is not democracy. That is autocracy.

Finally, we appear to be entering on a kind of imperialism ourselves, in violation of our own principles.

Spending

We have poured billions in lend-lease and otherwise into Soviet Russia and her satellities despite the fact that we know that in doing so we are supporting a closed economy, an economy that is controlled and closed against all the world, including ourselves, an economy that is in conflict with democracy and free enterprise. In doing this we are using America's economic strength to defeat America economically.

We have poured additional billions in lend-lease and otherwise into supporting the decadent systems of colonial imperialism, which is also a closed economy, from which we are excluded unless we buy our way back into it. Colonial, imperialistic monopoly is also in conflict with democracy and free enterprise. Here again we are pouring out billions of American dollars, America's economic strength, to defeat America economically. We are now discussing additional loans to the imperial nations, which nearly everyone admits will never be paid. How long, I ask you, can the American taxpayer afford to support failing economic systems?

How long can the American taxpayer afford to support economic systems whose purpose it is to defeat America economically? So far as the colonials are concerned, would we not be justified in asking our friends to reform, renovate and modernize their economy instead of relying on the American taxpayer for continuous support?

Let us not delude ourselves. America is at the present moment the most debt-ridden nation on earth. We seem to have great anxiety for the fiscal condition of other nations but very little interest in our own future economic welfare. I ask you men of business tonight this question: If we continue our lavish give-away policy abroad and our deficit spending at home, will we not eventually lead our own people to debts, disillusionment and unemployment? If we propose to do this or to permit others to lead us into that unfortunate position will it not destroy the American system which I have attempted to describe for you? I say to you that it is the purpose of groups in the world, who are represented in America, to destroy the American system of government and economics. Do you wish this to be done?

Future Foreign Policy

America has three courses open to her internationally. She may expand and strengthen herself in an attempt to become so powerful that she will be safe from attack. This would be wrong. It would be construed as an attempt by one nation and one people to control the world. That would be in conflict with the fundamental principles of democracy. The second course that America might pursue would be to join a power bloc, a political alignment, in which a group of nations including America would be so powerful as to defy attack by one other nation or combination of nations. We should be opposed to that policy for the simple reason that political alignments and power blocs have inevitably led to war. The elimination of these two concepts of foreign policy indicates that the right course for America is to place all of her power and her prestige behind the United Nations Organization to make it succeed, make it work. Eventually, in the United Nations, all nations, great and small, would have equal rights to choose their own form of government, to have a fair administration of international justice, to develop their own resources, to raise their own standards of living, to be free from aggressions, and to have reasonable assurance of peace.

Talks on Indonesian Clash

The arrival of Sir Archibald Clark Kerr, special envoy of the British Government, at Batavia, Java, is regarded as an important step toward solution of the conflict between Netherlanders and Indonesians in the latters' struggle for independence. On Feb. 3, Sir Archibald, who is to be Britain's new ambassador to the United States, conferred separately with Indonesian Premier Sutan Sjahrir and Dr. Hubertus J. van Mook, acting Governor General in the Netherlands Indies. Although details of the conferences were not disclosed, it was assumed that they served to acquaint Britain's envoy with both sides of the difficulty preliminary to the forthcoming peace talks between Netherlands officials and leaders of the unrecognized Indonesian Republic, according to Associated Press advices from Batavia.

Meanwhile, fighting continued between the Indonesians and Netherlands and British troops, with the rebellious forces reported to be striking severe blows in several sectors.

The Outlook for Production and Prices

(Continued from page 834)

agencies suggest that money spent for plants and equipment of all kinds during the four war years reached a total in the neighborhood of $37 billion, or an average of about $9 billion a year. Since we are interested in the volume of expansion of physical assets rather than in money spent, adjustment has to be made for the rise in construction costs. This would reduce the annual average of $9 billion to perhaps $7 billion. Furthermore, as we all know, much of the plant and equipment produced during the war is not serviceable in peacetime. Not all plants are properly located for advantageous peacetime production. Relative size is a drawback in other cases. Furthermore all of our physical equipment was subjected to more destructive wear and tear during the war period than in more normal times. All factors considered, it may be that our net annual increase in plant and equipment during the war years was about $6 billion. This is a rate only slightly below that of 1939 but considerably below the peak years of 1929 and 1937. Based on these assumptions, our usable plant and equipment has expanded appreciably during the war, but the rate of expansion has not been more rapid than during the more normal peacetime years.

Personnel

In the second place, as we consider our economic potentialities for the period immediately ahead, let us notice wartime changes in the personnel—the manpower—of the country. This includes laborers, managers, farmers, men and women, all of us who are gainfully employed. It would be well if we could ask ourselves, in terms of the popular slang, "How are we doing?" Are there more of us? Are we more ready to work? Do we have greater skill? Are we more efficient than we were before the war, and how well can our capacities be utilized?

In the first place, with respect to numbers, there were, at the wartime peak of activity, about 65 millions of us gainfully active in production and in the armed services. At that time, about 3 millions were temporary war workers who, for patriotic reasons or otherwise, left school or places of retirement for wartime jobs. Also, at this peak period there were some 15 million women employed and, furthermore, there were some 12 millions, including men and women, in the armed services. The end of the war has caused a rapid disappearance from the working force of many in these three groups. Most of the "patriotic" workers have gone back to school or back to places of retirement. Many women have returned to their households and many of those released from the armed services are not remaining in the working force, but rather are taking advantage of educational opportunities. Thus, the 65 million wartime working force is being rapidly reduced. It appears that it will be cut to a total in the low 50's before it resumes its normal upward trend.

In the second place, many who are still in the working force are finding themselves poorly located for peacetime employment opportunities. As you know, the migration of population in the United States during the Second World War was the largest internal movement in the history of the country. This migration was of three kinds—from the interior of the country to the perimeter, from the farm area to industrial areas and from the South to the North and West. The end of the war has brought some reversal of these population movements; but probably three to four million workers still remain in wrong places insofar as opportunities for peacetime production are concerned. Returning to the farm, particularly if it is in the dust belt or in the Ozarks, is not attractive after a few years of urban life and high wartime wages.

Another important development relative to personnel has been the rapid increase in union membership. At the end of the First World War, there were about 3 million members of labor unions in this country. By the end of 1939, membership had been increased to 7 millions. At the present time, there are about 15 million members of our working forces who carry labor union cards. This wartime growth is significant. Major industries are now almost completely unionized and nearly one-half of the present union members have experienced such membership only during the period of wartime abnormalities, labor shortages, increasing wage rates and emergency overtime pay.

There is also the question of efficiency of the working force, that is, whether or not the war has increased the productivity of all of us or whether we fit less well into our jobs. Accurate measurement of this capacity is, in many cases, impossible; however, for those producing material goods, fair estimates can be made. Generally, the findings based on actual production data indicate that efficiency is now below the prewar level. The United States Bureau of Labor Statistics concurs in this conclusion. It is true that productivity per man-hour did improve from the time the production of war goods was started in our plants until the end of the war. It is also true that once reconversion to peacetime production is completed and assembly lines are again moving, we shall have the opportunity of advancing the rate of output per man-hour. However, some time will be required to regain lost ground.

Another point relative to our labor force is less tangible than the others, but very important. The war has been costly to us in a way, which, for lack of a better term, we might call our "economic morale." A rather extreme example may make the point clear. A neighbor of mine has a son who left high school in 1943 to take a job in an airplane factory. After a few weeks of training, he was placed on a job which, with overtime work, paid as high as $90 a week. After this job came to an end, his father remarked to me that his son was "finding it a little hard to settle down."

In some degree, the same may be true of many of us. During the war emergency, it seemed necessary for the Government to pay subsidies to various producers. These producers are now finding it hard to give up the subsidies. During the war, it seemed necessary to support many prices—agricultural prices and various commodity prices. Again, these producers are finding it difficult to adjust to free markets. The same situation comes close home to some of us in the banking field. During the war, certain loans were guaranteed by the Government and some lenders have become accustomed to this support. Again, those of us who work for wages have encountered similar difficulties. This group of our population has become accustomed to extraordinary demand for labor, choices of two or more jobs, unprecedented wage rates, steadily advancing wage rates and also improved real incomes. Developments of the past six months indicate that it is a little hard for all of us to "settle down."

To sum up, our manpower now available for gainful production is only moderately stronger in numbers than it was before the war, and wartime changes may have reduced our capacity to produce.

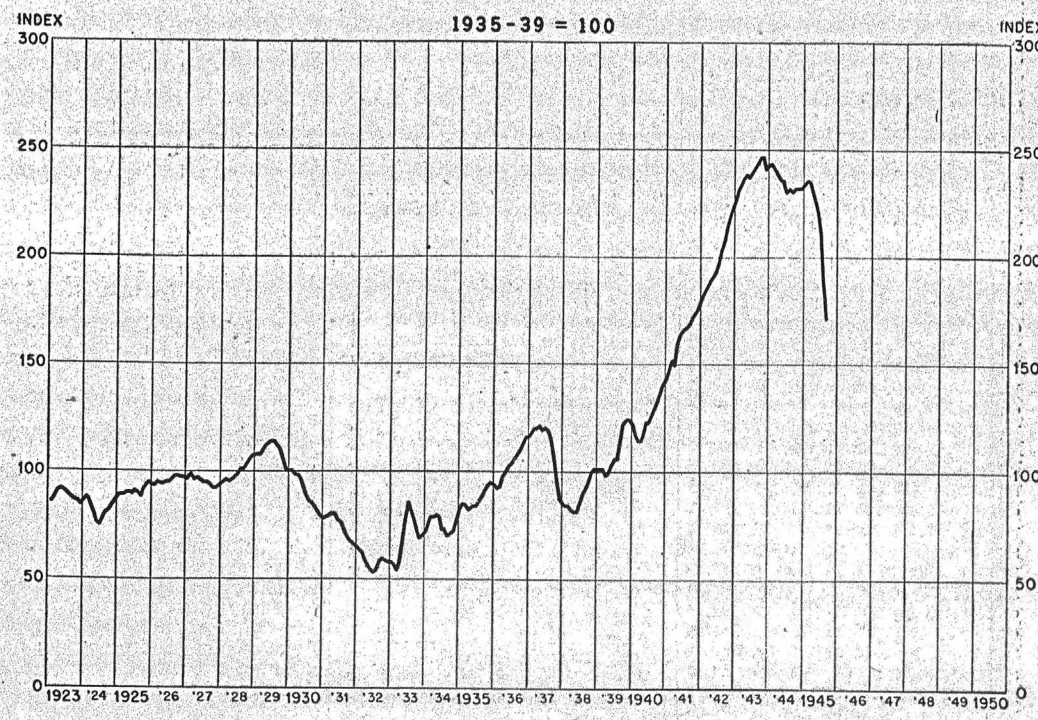
Methods and Technique

There is one phase of our economic outlook which is a very happy one at the present time. This relates to technique and to methods of production. During the war, we saw many technical developments, many short-cuts in production, many increases in mechanization, and the like, which put us in a much better position to produce goods in the future. This is true of agriculture as well as industry. Mechanization of farm production advanced at an extraordinary rate during the past five years. On the farm, we have learned how to increase production, even while available manpower was being reduced.

In combination, it seems to me that if we take all of these factors together, that is, our plant and equipment, our available manpower and our methods of production, we can expect a moderate increase in the output of goods by our economy over the prewar years. At the same time, it is my feeling that this increase will not be extraordinary. If I were going to attempt to suggest the range within which the physical volume of our production would fall in the near future, I would prolong a line of trend which fits fairly accurately the Board's index during the 20 years preceding the war. Such a line would give us a point on the Board's index for 1946 at about 160. Then, if we take 20 points in either direction from this figure, that is, 140-180, it would seem to me that this area might represent the most likely range of our rate of production during the next 12 to 18 months.

PHYSICAL VOLUME OF INDUSTRIAL PRODUCTION

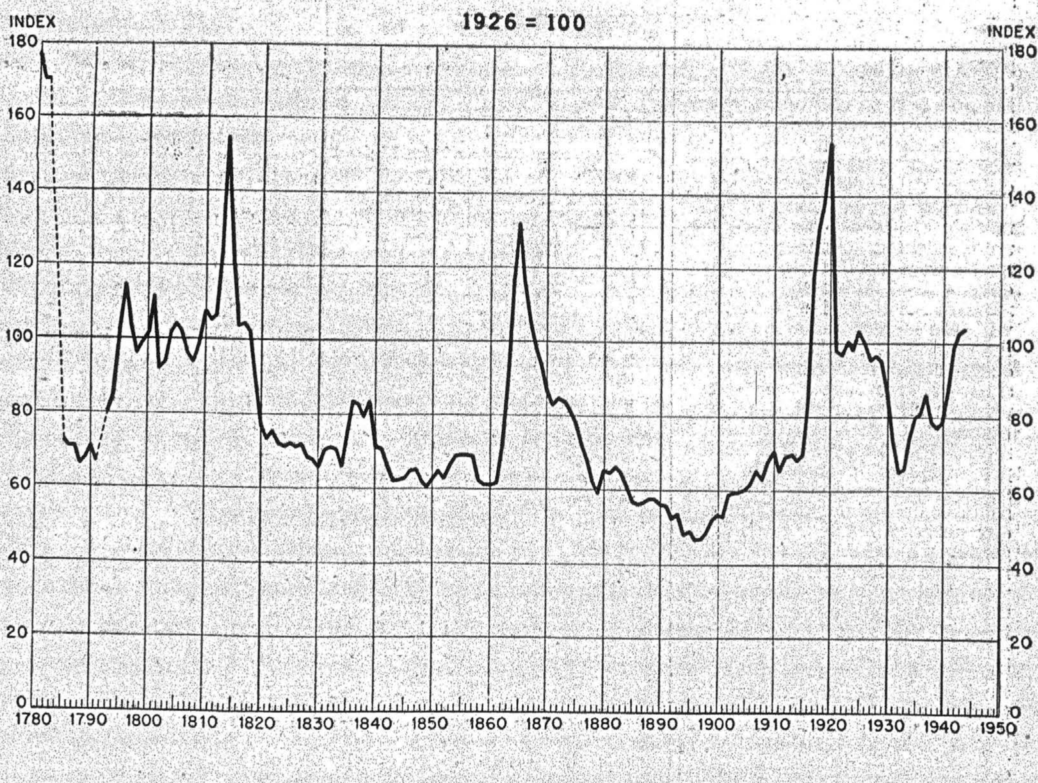
ADJUSTED FOR SEASONAL VARIATION



SOURCE: FEDERAL RESERVE BOARD

WHOLESALE PRICES

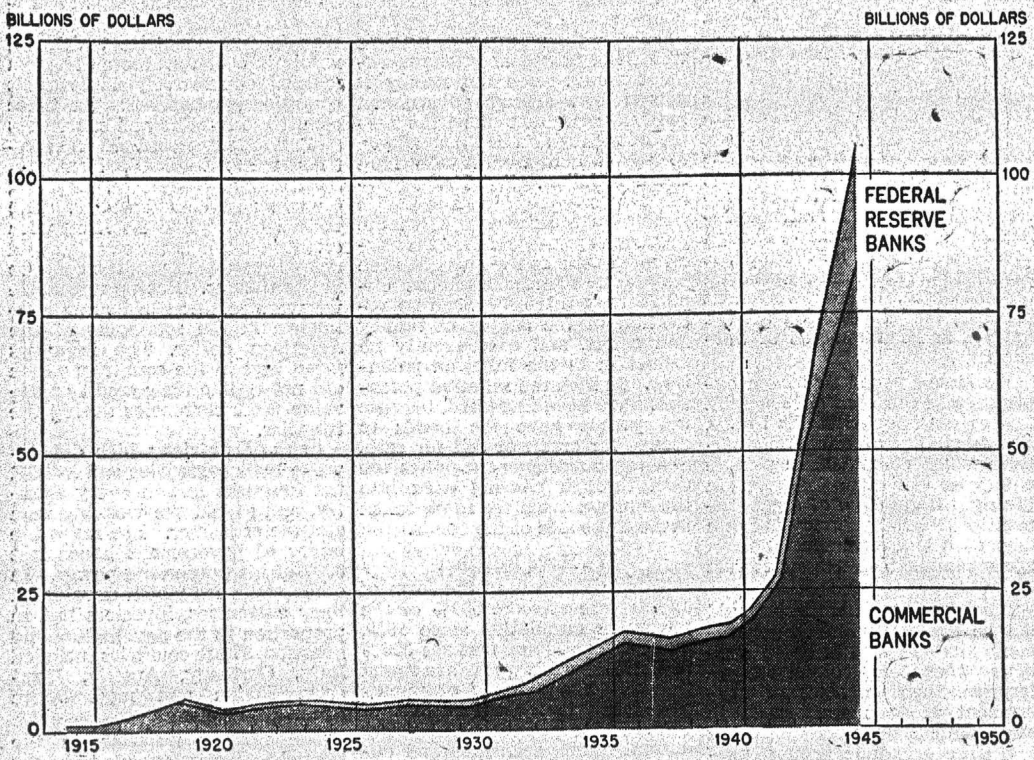
ALL COMMODITIES - YEARLY AVERAGE



Source United States Department of Labor

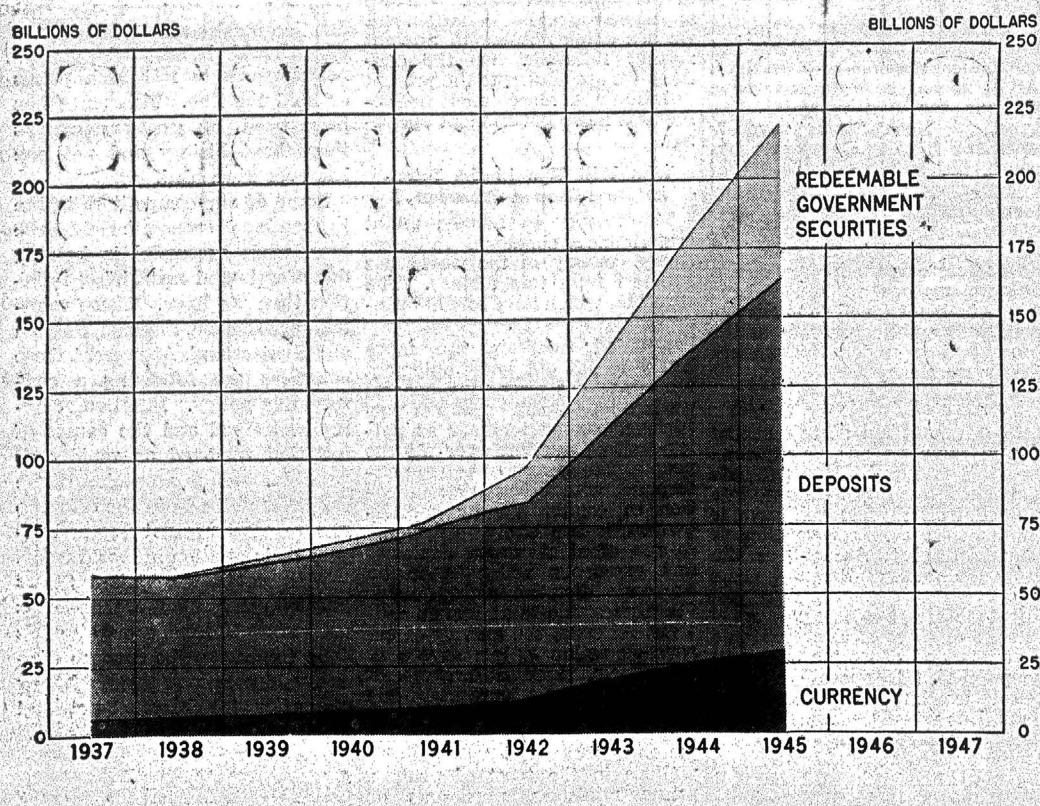
INVESTMENTS IN U. S. GOVERNMENT SECURITIES

BY THE COMMERCIAL BANKING SYSTEM



Source: Board of Governors of the Federal Reserve System

LIQUID ASSETS IN THE HANDS OF THE PUBLIC



Source: Board of Governors of the Federal Reserve System and United States Treasury

If this estimate is reasonably accurate, then we would expect a moderate increase in the supply of goods, generally, over prewar years.

Prices

The trend of wholesale commodity prices in this country since the establishment of the Constitution is indicated in Chart II. You will notice that very high prices are characteristic of wartime. However, the advance in prices during the Second World War was not comparable to that of earlier wartime periods. The question before us now is, will we yet have a substantial price rise?

In attempting to answer this question, let us take the broadest possible view of the situation. Price movements (and here we assume that markets are to be relatively free) are dependent on a kind of teeter board, on one end of which is the supply of goods and services and on the other end, the demand for these products. If our estimates are correct, the supply of goods for the immediate future is not going to be much above that of prewar years. Thus, demand is the key factor, and the uncertain factor, at the present time. You will remember that demand is defined in the old economics textbook which you used in school as "desire plus ability to pay." It is the rise in ability to pay which, in my mind, is one of the most important changes which our economy has experienced during the war.

"Ability to Pay"

Let us notice how this rise in ability to pay came about. The major part of the rise was the increase in commercial bank deposits which occurred as a result of the method used in financing the war. As you know, there were heavy Government borrowings from commercial banks. I presume it is clear to you how this process worked. For example, when you borrow from your bank, you give your banker a note promising to pay at some time in the future. In turn, the bank sets up a deposit of similar amount for you by agreeing to pay you that amount on demand. Thus, a new commercial bank deposit comes into existence when you borrow from your bank. Similarly, when the Federal Government borrows from commercial banks, its bonds become the assets of commercial banks and new deposits, in similar amount, come into being.

The extent of Government borrowing from commercial banks during the war is indicated on Chart III. You will notice the extent of such borrowing in the First World War — an amount which, at the time, seemed large. The total for Federal Reserve banks and commercial banks was somewhere in the neighborhood of $5 billion. During the process of financing Government expenditures during the decade of the 30's, the total increased to something like $20 billion. Wartime expenditures caused a great acceleration in the rate of advance, so that at the end of 1945, it was about $115 billion.

Largely as a result of the advance in Government borrowing from the commercial banking system, we have the increase in liquid assets in the hands of the public, shown on Chart IV. This chart shows currency outside banks, bank deposits—time and demand, less Government and inter-bank deposits — and redeemable Government securities in the hands of the public. The total of these assets was about $65 billion in 1937. This was a total approximately equal to that which existed at the time of the boom of 1929. At the time of Pearl Harbor, these liquid assets totaled something like $85 billions, and it expanded to about $235 billions at the end of 1945. Notice that the increase from 1937 to the end of 1945 is almost 400%.

A major question at the present time is the extent to which these funds now in the hands of the public will be used. Much has been said of late regarding "liquidity preference," that is, the desire of the public to maintain large cash reserves. The very fact that these funds do exist in somebody's hands at the present time suggests to some observers that large unused holdings will persist in the future. It is true that the turnover of commercial bank deposits has shown a general downward trend since 1929, when the rate was more than 50 times a year. At the present time the turnover is about 17 times a year. A rise in the turnover of liquid assets, even to the average rate of the past ten years, would give us a spectacular spending boom. Surveys of the intention of people relative to their use of liquid assets have for the most part indicated that the "liquidity preference" idea stands on a pretty slim basis. A typical farmer has in mind the addition of rooms to his house, the construction of a new barn, new fences, and the like. Many Government bonds have been sold on the slogan of saving until the new electric appliance is available, or saving for a downpayment on a new home, etc. Similarly, the boards of directors of industrial corporations may be considering their holdings of Government securities only as temporary use for funds later to be used in other ways.

Funds Being Used

As a matter of fact, it is obvious that accumulated assets are being used by the public. Despite the fact that industrial production is far below that of a year ago and incomes are lower, retail sales have continued to expand. The present rate of industrial output is appreciably below that just preceding the attack on Pearl Harbor, but retail sales are some 70% above those of that period. The turnover of real estate is the highest in our history. Commodity prices, insofar as the average is concerned, show steady advances. Gasoline is the outstanding exception to the general rule. The prices of common stocks, as you know, have advanced some 25% since the end of the war, and the boom in real estate values continues despite adversities in the present rate of business activity.

One still hears the question asked, are we going to have inflation? In reality, it appears to me that inflation is already under way and that the main cause is to be found in the expansion of liquid assets in the hands of the public, which resulted from war financing. It is true that there are other upward pressures on prices, such as shortages of various goods, particularly textiles, housing and housefurnishings, and the advance in costs of production. Nevertheless, the major cause, and one which gives evidence of remaining with us for some time, is the expansion of liquid funds.

Much lip service is being given to the prevention of inflation. We frequently hear "hold-the-line" speeches and "pep talks" on the desirability of everyone being temperate in his purchases, but if we really want to deal with the underlying cause of the advance in prices, we must direct our energies toward the great volume of accumulated funds. This would involve the reduction of swollen bank deposits — in other words, the establishment of a definite policy to get the debt out of the banks into the hands of those with available funds. Under present circumstances, the tendency is for bank deposits to continue to increase as more bonds are absorbed by banks. Furthermore, if it is our desire actually to reduce inflated purchasing power in the hands of the public, one way to do it would be to increase taxes, paying off greater proportions of the public debt. However, the current feeling is that taxes should be systematically reduced.

Summary

Regarding the outlook for industrial production, it appears that in view of all of the factors involved, we do not have "what it takes" to maintain a level of industrial production comparable with that of the wartime peak. Rather, it seems to me we will have to be satisfied, during the period immediately ahead of us, with a level, as measured by the Federal Reserve Board index, lying largely within the range of 140 and 180. Regarding prices, it seems to me that since we are likely to have a volume of goods and services only moderately above prewar levels during the months immediately ahead, while, at the same time, we have potential buying power approximately four times the prewar amount, rising prices are logical. Should you press me for an estimate of the extent of such rise during 1946, I should probably mention the figure of around 10% for consumers' goods generally. This, of course, is not what I desire, but it is a trend which, because of present circumstances, I am forced to expect.

Bureaucratic Investment Control

(Continued from first page)

our own, the British measure, when considered along with other proposed socialistic legislation, has a special significance. It makes Government and Business in Britain one, in fact, and may mean eventually the end of private enterprise and a free economy in the foremost capitalistic nation of the last three centuries.

British Traditional Policy

The traditional British commercial policy since the days of Adam Smith has been one of noninterference with private initiative in directing the flow of investment capital and in promoting the expansion of industry and commerce. The policy of stimulating public welfare by permitting each individual to seek the betterment of his own private interests was regarded as a cornerstone of British politics. Accordingly, the British Governnmnent not since the "Bubble Acts" of the early 18th Century, never sought to control the operations of the Stock Exchange and, except in rare instances of emergency, never interfered with the credit policies of the Bank of England or of other credit institutions. This policy was in almost complete contrast with that of the French and other continental governments, each of which sought to effect its own political and economic interests by placing severe measures of control over investment and speculation activities.

The British Government's "hands-off" policies gave rise to vast investment banking activities throughout the British Empire, and may be said to have been responsible for the nation's financial and commercial greatness. The British investment bankers, individually and as a group, assumed the responsibility of directing the flow of capital. These men, without bureaucratic planning and without Government subsidies or privileges, planned and built the British railroads, enlarged British shipping, promoted British industries, and built up credit and insurance institutions superior and more comprehensive than in any other quarter of the globe. Under the system of private initiative, the English became the world's dominat capitalists and were the envy of the other great commercial nations. The great British Commonwealth of Nations may be said to be the creation of this policy of laissez-faire.

The U. S. Policy

We, in the United States, have followed the traditional British policy. It might, indeed, have been from necessity, rather than choice that transportation, banking, insurance and other public service enterprises, were generally left to private rather than to state enterprise. But, it was certainly laid down as a matter of principle in early American constitutions that governments were not expected to engage directly in business undertakings, even when the economic welfare of the community was involved, unless private interests could not or would not voluntarily engage in them. In the period when the states, to further their industrial and agricultural aggrandizement, attempted to provide banking, transportation and other public utilities, the projects, with few exceptions, either failed or were given up as inconsistent with American ideals of government. The Jeffersonian principle of the "less of government, the better governed" seemed to prevail throughout most of the period of our rapid national development.

The Change of Policy

But, now, governmental principles and ideals seemed to have changed. The old Anglo-Saxon concept of harmony of private and public interests has been overturned to its very foundation stones.

According to the first section of the British Government's Capital Control Bill the Treasury's powers to control new capital issues that since 1939 have been exercised by the Capital Issues Committee under the defense (finance) regulations is made permanent. It is proposed in a White Paper published with the bill that this committee continue to pass on all projects involving the raising of new capital exceeding £50,000 whether by public issues of securities or otherwise.

The White Paper accompanying the Bill also proposes a National Investment Council, under the chairmanship of the Chancellor of the Exchequer, with members including the governor of the Bank of England and the chairman of the Stock Exchange, to advise the Chancellor on the broad lines of investment policies to be followed by the Capital Issues Committee.

Though the proposed British legislation is much more comprehensive than any similar action in the United States or other capitalistic governments, it is not expected, in view of the Labor party majority, to have difficult opposition, despite the fact that it may add an additional burden on the already drained and depleted British Treasury.

Undoubtedly, the Labor Party aims to encourage the investment of capital in approved industries in accordance with its own policies and under direction of its supreme economist, the powerful Chancellor of the Exchequer. If this object cannot be attained, the final resort will be nationalization of those industries, as already undertaken in Communist Russia. Thus, the success of the measure will be related to the nationalization policy, which, we are told, at the present time aims to extend Government direct ownership to not more than 20% of the nation's industry.

In addition to the control of capital issues, which was originally introduced as an essential war-measure, and is "already practically watertight," the new bill proposes to set up a National Investment Council which, "in accordance with the public interest," will grant Government guarantees to investment of capital along certain lines and in certain ventures. This Council, to be headed by the Chancellor of the Exchequer, will make recommendations, which in the nature of the situation, will automatically be carried out by the Treasury.

Voting subsidies and giving other forms of public aid to private business enterprises is not without precedent. Shipping subsidies, export and import tariffs, and the like, have been in existence in Great Britain and elsewhere for a long time. We have had similiar ventures in our own country. In the early days of the republic, Congress voted subsidies and gifts for silk-worm culture, vine and olive planting, and other promotions regarded as assisting public welfare. Financial aid was also plentifully given for canal, road and railroad building, much of which forms interesting, though not altogether pleasing episodes in the nation's political and economic development.

Radical Aspect of British Legislation

The new British legislation is new and radical only on the concept that it becomes a fixed and permanent political policy and not merely a temporary or emergency expedient. It places government as a controlling partner in private business. It thus brings about bureaucratic control of capital placement. It will eventually set up state economic dictation—a planned economy of the Fascist and Hitler type!

London correspondents are emphasizing the fact that the new British measure is bound to bring into active participation new business leaders in the British Government, and "will go a long way towards reconciling business interests with the Control of Investment Bill." It is expected also, that the measure will be used extensively to aid in expanding British exports, and thereby relieve the nation of its adverse international trade situation. Though these objects may be attained, it should be borne in mind that even business men, when government officials, tend to take on all the narness and harassments of bureaucrats.

We have learned this from experience in our own government. The reason is not difficult to see. The flexibility of mind and motives which characterizes private enterprise cannot be exercised in the rigid framework of a government office. Bureaucracy is not a theory—it is a condition. It is an accompaniment of the strict rule of law.

But bureaucratic control should not be confounded with government aid and assistance to *promote* rather to control private enterprise. Such activities of government are not condemned in any political quarters or among any large economic groups, particularly when special privileges, not in accordance with public welfare, are avoided.

Such actions of government have resulted in tariffs, subsidies and outright grants of power and privileges. There could be no objections, therefore, by Conservatives, Liberals or Laborites; or by Democrats or Republicans to the efforts of the British Board of Trade in its attempts to guide industry to the development of certain geographical areas or in the direction of more efficient and economical methods of operations. All modern governments have bureaus for this purpose. Ex-president Hoover was severely criticized by the Democrats because, he, both as Secretary of Commerce and as President, expanded the work of the Commerce Department at heavy expense to the taxpayers. Yet, never before in the history of this department has so much been done or planned, and so much expended in public funds as at the present time under the present Secretary, Henry A. Wallace.

Dangers of Political Controls

Government aid of this nature should have no strings attached to it. It is supposed to promote and encourage, not to regulate and control. Private initiative is unhampered and competition is given full play. As long as the economic motives back of these activities are ascendant over political motives, business will progress along natural profitable channels, and economic laws will be permitted to operate unhampered by bureaucratic restrictions. But when Government enters business as a controlling partner, political motives tend to predominate. Such statism will sound the death knell of private initiative and enterprise.

There can be little doubt that the present efforts of the British Government to control the flow of investment capital will, in the end, be dominated by political rather than economic motives. Though the welfare of the public is supreme law, bureaucrats in power have not the unfailing faculty for ascertaining what constitutes the road to public welfare. The motives of economic action, under free competitive conditions, participated in by numerous individuals with diverse as well as harmonied interests, are more likely to sift out and implement the conditions promoting general welfare than a small group of politicians, banded together as policy-making overlords for all the people. The system of private enterprise, with voluntary application of capital use by capital-owners, is less likely as a whole to run afoul of wrong decisions and erroneous actions than an economic dictator, acting under the highest ideals of human motives. At least, the gravity of erroneous action is less severe in its effects, since differences of opinions among a large multitude tend to diminish the weight of error. No nation can afford to permanently place its material welfare in the trust of princes, prime ministers, presidents or other potentates. No Government bureaucrat, no government organization, however benevolent and fair minded, can, in the long run, have the efficiency, foresight or intelligence of the collective mind, operating through individual action, in placing funds or in risking property for the purpose of insuring permanent prosperity and providing for the good of all. Only in this way does society get the benefit of the law of averages —the balancing out of sound against wrong judgments.

The Menace of Inflation

(Continued from page 837)

imum, and by taxing away the surplus money and credit and holding it off the market.

The bogey of holding down inflation by selling government bonds, should be exploded. If the buyers of government bonds would keep them, and the government would keep the money it gets from selling government bonds this would reduce the supply of money and credit available to spend and would help hold down inflation. But if the government sells bonds to the public and takes the money out of the people's deposits, and then the government returns the money to the people through government expenditures, there has been no reduction of the supply of money and credit, and consequently no reduction in the inflation potentials. In fact, the inflation potentials have been increased, because the people have the bonds to pledge for credit or sell for cash, and the government supplies the cash through pouring back into the money stream the funds taken in from the sale of the bonds.

We Have Inflation

This inflation is in the form of an increase of some 500% of the money in circulation since 1929, and an increase of perhaps 300% in bank deposits. These are round figures. The velocity of money and credit is far below that of 1929. If the present rising prices of real estate, securities and objects of black market allure, excites the public to spend their money until the velocity reaches that of 1929, the price level will be several hundred percent higher than it is now. What is the government doing to reduce these inflation potentials? Can we stabilize an inflation? Certainly no country ever has stabilized an inflation. An inflation keeps on expanding or collapses. We are now in the expansion stage. We are apparently afraid of deflation. But we are doing nothing to prevent further inflation. On the contrary we are adding to the present inflation with more deficit financing and more government spending.

Who Will Win in the International Race of Prosperity?

The history of money, credit and finances condemns inflation. Every country in the world has suffered from this disease. The countries which have fought inflation most successfully are the countries which have had the most stable and prosperous conditions. The evidence of this can be found by examining the records of economic conditions since World War I. The countries which did not inflate or devalue and which maintained relatively stable credit conditions, prospered. In these countries investors and consumers alike were better off. Such countries were: Holland, Denmark, Switzerland, Sweden, England, Canada and United States. The United States had its fling with credit inflation in the twenties and the price we paid was the collapse in the thirties. But up until 1934 we were justified in having confidence in the soundness of the American dollar. The investors fared best in the countries which did not inflate their credit or devalue their currencies during the twenties.

In the countries which did devalue their currencies and inflate, the investors lost in every country, and so did the working man and the consumer. In France the buyer of government bonds lost 80% of his purchasing power. In other countries which devaluated their currencies, investors lost in proportion to the devaluation and inflation. These countries included Italy, Germany, Austria, Hungary, Russia and most South American countries.

The present inflation in the United States may prove to be far more costly than the war. The remedy for the present inflation is not to be found in fighting price increases and chasing black market racketeers. The remedy is to be found in free markets where prices regulate supply and demand, and in removing from our present money and credit supply the surplus money and bank deposits. This can be done. It will require a drastic operation, but it will be worth it. Unless this drastic operation is performed, no one should be misled by announcements to roll back prices or hold the line. This game has been tried by governments throughout history and not one has ever succeeded.

Some of our competitors in the international economic field have been more successful in holding down costs and restraining inflation than we have. These countries are Canada, England, Sweden and Switzerland. At present these countries are following a conservative policy. Inflation is being restrained and the causes of inflation removed as rapidly as possible. In my opinion these countries will win in the effort to restore economic stability and regain their position in world trade.

Will we in the United States inflate ourselves out of the world's markets? Unless something is done to remove the causes of inflation, the outlook is not a happy one after the boom, burst and speculative honeymoon are over.

Stover & Perkins Form New Inv. Firm

L. Gilbert Stover and Herbert L. Perkins announce formation of the firm of Stover & Perkins, to do a general business in investment securities. The firm will maintain offices at 42 Broadway, New York.

Euler & Co. Admits

PHILADELPHIA, PA.—Joseph Euler has admitted Charles J. Euler to partnership in Euler & Co., 1518 Walnut St.

NASD Exonerates Halsey, Stuart & Co.

(Continued from page 841)

would be pleased to hear from you as to this matter," respondent also sending a copy of this telegram to the Connecticut Public Utilities Commission. Complainant notified the respondent by telegram on April 20, 1945 that "conditions do not permit of favorable consideration of your request."

By telegram respondent notified the Connecticut Commission on April 24, 1945 that it would be present at the hearing upon complainant's petition and requested "an opportunity to be heard with reference to a request we have made the Connecticut Light & Power Company to submit a bid at open competitive sale for its proposed Series J bonds."

Respondent had been unsuccessful in an earlier attempt in September, 1944 to induce the complainant to offer an issue of securities by competitive bidding.

At the hearing before the Public Utilities Commission, upon the completion of the presentation of the evidence of complainant to the Commission in support of its application for approval of the private sale, the Commission stated that representatives from respondent were present, had asked permission to appear in the proceeding or to make a statement, and that the Commission would not preclude them from making such a statement. Respondent's representatives, without becoming parties in the proceeding, then read a letter from respondent to complainant dated April 25, 1945, which had not theretofore been submitted to complainant, which stated:

"... As indicated in our telegram of April 19, 1945, it is our opinion that you can receive the highest possible prices for your Bonds only by offering them at open competitive sale. We have requested an opportunity to submit a bid for your proposed Series J Bonds at such a sale, but you have advised us that conditions do not permit of favorable consideration of our request.

"Therefore, in order that you may have the necessary funds in time to cause the requisite notice to be published for redemption of your Series G bonds on June 1, 1945 and at the same time to enable you to obtain the advantages of offering your proposed Series J Bonds at open competitive sale, we hereby make you the proposal outlined below. Such proposal is predicated on the conditions that (a) you register such Bonds under the Securities Act of 1933, as amended, and that a registration statement covering such Bonds shall become effective on or before May 31, 1945 or such later date as may be mutually agreed to, (b) the issuance and sale of such Bonds shall be approved by the Connecticut Public Utilities Commission, and (c) you will offer such Bonds by open competitive bidding.

1. We will purchase your proposed issue of $16,000,000 First and Refunding Mortgage 3% Bonds, Series J, at 107.50% of the principal amount, plus any accrued interest, or in the event that delivery and payment are made prior to May 1, less interest on the Bonds from the date of payment to May 1, 1945. We agree to accept delivery of any pay for such Bonds on any date prior to May 15, 1945 fixed by the Company on three days' written notice to us. Such Bonds shall be redeemable at prices to be determined in accordance with the usual call price formula used in competitive bidding.

2. We will simultaneously grant you an option for thirty days (or such extended period as may be mutually agreed to) after the delivery of the Bonds to us or through the date on which a bid at a competitive sale is accepted, whichever date is earlier, to repurchase such Bonds from us at the price we pay you and accrued interest plus any required transfer taxes, or upon your instructions, we will deliver the Bonds to the bidder whose bid is accepted at the competitive sale and pay to you any premium over the price at which we purchased the Bonds from you less any required transfer taxes. If the Registration Statement pertaining to such Bonds shall not become effective within such period or such extended period as may be mutually agreed to, you shall repurchase the Bonds from us at the price we pay you and accrued interest plus any required transfer taxes within thirty days from the date of the expiration of such option ..."

The price of 107.50% set forth in this letter was inserted by respondent at the hearing before the Commission after complainant had disclosed the price of 106.980365% at which complainant has agreed to sell the Series J bonds to the eight private institutions, subject to the approval of the Connecticut Commission.

Thereafter complainant's president testified at the hearing that it would be impossible to complete the necessary work to have a registration statement become effective on May 31, 1945; and that the offer was not sufficiently attractive, definite or binding on respondent to justify him, as president, to refuse to go ahead with the definite contracts with the eight purchasers of the bonds at the agreed price, subject to the approval of the Connecticut Commission. Additional objections of complainant to respondent's offer are set forth in the pleadings.

On April 26, 1945 the Connecticut Public Utilities Commission entered an order approving the proposed sale by private placement as requested in complainant's application. Notice of intention to redeem the Series G bonds was published on May 1, 1945, the Series J bonds were delivered and paid for on May 28, 1945 and the Series G bonds were redeemed on June 1, 1945.

The District Business Conduct Committee stated that while there was no evidence to support a conclusion that respondent acted in bad faith or was not ready to act immediately on its offer had it been accepted, it nevertheless concluded that:

1) Respondent at the hearing on April 25, 1945 "sought to enter a proposal on an occasion and under such circumstances as to make it difficult and embarrassing for complainant to ignore the proposal. It was a high-pressure attempt to sell respondent's services and to compete for the issue under competitive bidding";

2) While "it is difficult to define exactly the precise conditions under which aggressive efforts to establish business contacts cease to be legitimate and exceed reasonable limits," the Association must "exact from its members compliance with high standards of commercial honor so that there will exist that degree of restraint and ethical decency which are necessary for the protection of the public";

3) Respondent's "publication at the hearing of a proposal addressed to, but not previously shown to, the complainant, was clearly a planned last-minute attempt to embarrass and harrass complainant into doing business on respondent's terms and regardless of all other consideration"; and

4) Respondent "indulged in high-pressure tactics without proper consideration for complainant's wishes and without observation of elemental principles of decency and courtesy which are inherent in the conception of high standards of commercial honor" in violation of Section 1 of Article III of the Rules of Fair Practice.

Approval of the State Commission was necessary before the complainant could issue the bonds. It was for the Connecticut Commission to determine by whom evidence might be offered and what evidence might be received at the required public hearing. It was for the complainant to determine whether any offer made at the public hearing with the permission of the Commission was acceptable to the complainant and for the Commission to determine whether any such offer, notwithstanding any objection of complainant, justified withholding approval of complainant's application. Consequently, in participating in the hearing and introducing evidence with the permission of the Connecticut Commission, it cannot be said that the respondent violated any law.

However, whether a member has violated Article III, Section 1 of the Rules of Fair Practice does not depend upon whether the member has, on the one hand, refused to honor obligations legally enforceable in the courts or, on the other, committed acts which subject the member to legal liability in the courts. That section requires Association members to observe an ethical standard of conduct. The Securities and Exchange Commission has stated that the Association is "charged with the duty in inculcating just and *ethical* principles of trade in the over-the-counter business." (Exchange Act Release 3734.)

Whether the conduct of a member in a particular situation violates the rule is a question of fact for the determination of the District Business Conduct Committee and the Board in the light of their detailed and specialized knowledge of the trade practices generally accepted and observed by the great majority of members of the trade. They must bring their knowledge of trade practices to bear upon the case and make their determination in the light of their experience as technicians in the securities markets rather than as lay jurors or as judges. (Exchange Act Release No. 3623.)

The Board of Governors concurs in the District Committee's finding that respondent's proposal was not made in bad faith, and under all of the circumstances of this case the Board of Governors concludes that the action of respondent in exercising its right to object to the proposed sale at the hearing before the Connecticut Commission, and support its objection to approval of the application with its own offer in good faith to purchase the bonds at a higher price with a subsequent offering of such bonds by open competitive bidding, did not constitute conduct inconsistent with high standards of commercial honor and just and equitable principles of trade, as used in Section 1 of Article III of the Rules.

At the hearing before the State Commission on April 25, 1945 respondent knew that complainant had entered into contracts with eight institutions for the sale of its Series J bonds, subject to the approval of the State Commission. One of respondent's purposes in appearing at the hearing and presenting its offer was to induce the Connectcut Commission to withhold approval of the private placement which had been negotiated. To the extent that respondent's action was intended to bring about withholding of Commission approval, respondent's conduct did not constitute an attempt to induce a breach of a firm contract by one of the parties thereto, in violation of Section 1 of Article III of the Rules.

Respondent did not violate the Rule either because complainant had previously rejected competitive bidding and declined to negotiate with respondent for this particular issue, or because respondent inserted the price in its proposal after disclosure of the price in the proposed contract for private placement. Under the Rules members have a right in good faith to solicit and to press for business until that business is removed from the realm of competition by a firm contract and respondent acted in good faith. The six-day notice afforded little time for the preparation and earlier submission of a definitive proposal which was complicated by the pendency of the application for approval of the private placement. In the view of respondent the circumstances required respondent to guarantee that the price to the issuer in its proposal would be equal to or better than that under the proposed private placement contract. In view of the good faith of respondent, it cannot be said that such conduct was an unethical or unfair business practice within the meaning of the Rule.

A violation of the Rules may not be predicated upon the ground that respondent's conduct created a substantial hazard that complainant's efforts to refund its bonds on advantageous terms on June 1, 1945 would be defeated and that complainant would thereby be deprived of interest savings and subjected to the risks of the bond market for an additional six months. Respondent was acting in good faith and believed that acceptance of its proposal would not subject complainant to these hazards. Whether, contrary to respondent's belief, the acceptance of respondent's proposal would cast such a hazard upon the complainant and, if so, whether the hazard was sufficiently serious to justify or require rejection of respondent's proposal was in the first instance for determination by complainant and ultimately by the Connecticut Commission. That a proposal of a member raises such a question for determination by an issuer and by a Commission charged with the duty of making such determinations cannot constitute unethical or unfair business conduct within the meaning of the Rule.

The Board of Governors, with 4 members not particpating, determines:

a) That respondent engaged in the acts and practices alleged in the complaint and found by the District Business Conduct Committee;

b) That such acts or practices of respondent do not constitute conduct inconsistent with high standards of commercial honor and just and equitable principles of trade;

c) That said acts an practices of respondent were not in violation of Section 1 of Article III of the Rules of Fair Practice of the Association;

d) That the decision of the District Business Conduct Committee should be, and it hereby is, reversed;

e) That the complaint be, and it hereby is, dismissed.

For the Board of Governors
By /S/ Wallace H. Fulton,
Executive Director.

Feb. 4, 1946.

Broker-Dealer Personnel Items

(Special to THE FINANCIAL CHRONICLE)

BAY CITY, MICH.—**Louis C. Garrison, Jr.**, has become associated with **Merrill Lynch, Pierce, Fenner & Beane.** Prior to serving in the U. S. Army Mr. Garrison was in charge of the Bay City office of Humphries, Angstrom & Co.

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, OHIO—**Harry W. Myers** has been added to the staff of **Paul H. Davis & Co.**, Union Commerce Building.

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, OHIO—**Ivan V. Smith** has rejoined the **First Cleveland Corp.**, National City Bank Building, after serving in the armed forces.

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, OHIO—**Charles J. Kilroy** has become associated with **Ginther & Co.**, Union Commerce Building. He has recently been with Dun & Bradstreet, Inc. Prior thereto he was with Otis & Co. and the Cleveland Stock Exchange.

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, OHIO—**Ralph F. Huller** and **Frederick J. King** have rejoined **Hawley, Shepard & Co.**, Union Commerce Building, after serving in the armed forces.

(Special to THE FINANCIAL CHRONICLE)

COLUMBUS, OHIO—**Henry B. Richter** has rejoined **The Ohio Company**, 51 North High Street, after serving in the armed forces.

(Special to THE FINANCIAL CHRONICLE)

COLUMBUS, OHIO—**Robert F. Ruhl** is now connected with **Vercoe & Company**, Huntington Bank Building.

(Special to THE FINANCIAL CHRONICLE)

DAYTON, OHIO—**Harlan S. Hosler** has become affiliated with **Slayton & Company, Inc.**

(Special to THE FINANCIAL CHRONICLE)

DENVER, COLO.—**Paul H. Cunningham, Jr.**, is now with **Peters, Writer & Christensen, Inc.**, U. S. National Bank Building.

(Special to THE FINANCIAL CHRONICLE)

GRAND RAPIDS, MICH.—**Clarence D. Allen** has joined the staff of **Dudley H. Waters & Co.**, Association of Commerce Building, after serving in the U. S. Navy. In the past he was with Bradbury-Ames & Company.

(Special to THE FINANCIAL CHRONICLE)

HARTFORD, CONN.—**Mrs. Rose Schnitman** has joined the staff of **Mansfield & Co.**, 49 Pearl Street.

(Special to THE FINANCIAL CHRONICLE)

INDIANAPOLIS, IND.—**Fred S. Kuethe** is with **Slayton & Co., Inc.**

(Special to THE FINANCIAL CHRONICLE)

KANSAS CITY, MO.—**Edward O. Prothman** and **James A. Ross** are with **Baum, Bernheimer Company**, 1016 Baltimore Avenue.

(Special to THE FINANCIAL CHRONICLE)

KANSAS CITY, MO.—**Grace G. Court** is with **Herrick, Waddell & Co., Inc.**, 1012 Baltimore Avenue.

(Special to THE FINANCIAL CHRONICLE)

MIAMI, FLA.—**Sam V. Silsbee** is with **Frank D. Newman & Co.**, Ingraham Building.

(Special to THE FINANCIAL CHRONICLE)

PORTLAND, ORE.—**Vernon C. Ryder** is with **Daugherty, Cole & Co.**, U. S. National Bank Building. He was formerly with Conrad, Bruce & Co. for many years.

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, MO.—**David R. Francis III** has become associated with **Newhard, Cook & Company**, 400 Olive Street, after serving in the U. S. Navy. In the past he was with Francis, Bro. Co.

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, MO.—**Eugene Pettus** has become connected with **Smith, Moore & Company**, 509 Olive Street, after serving in the U. S. Army.

(Special to THE FINANCIAL CHRONICLE)

TOLEDO, OHIO—**Urban B. Stedman** is with **Slayton & Company, Inc.**

The Credit to Britain And World Trade

(Continued from page 831)

war has plunged Great Britain. The partial solution I am thinking about is the Anglo-American economic and financial agreements.

In the course of the discussion and debate that these agreements have evoked, the nature of the problem facing Great Britain has become familiar to all of us.

The Plight of Britain

Before the war, the British people bought about a fifth of all the goods that were exported by all the other countries in world trade. They were our largest single customer. They were the largest customer of many other countries. They paid in goods, in the income from their overseas investments, and in the earnings of their merchant fleet.

Now, as they emerge from the war in which they suffered so bitterly, their exports are down to about a third of what they were in 1939. Many of their plants producing goods for export have been bombed out of existence. Many foreign investments have been sold and foreign properties damaged or destroyed. Much of Britain's merchant fleet has been sunk.

The British borrowed heavily abroad. At the same time they sacrificed their export trade and converted their entire economy to war. Now, Britain must reconvert, and on a much larger scale than the United States. Britain must reconstruct, which we do not have to do.

But unless credit is extended to the British, they cannot purchase abroad the goods and equipment they need in order to reconvert and to reconstruct. Until this is done, Britain's purchases cannot reach the old volume, much less an expanded volume. Such a situation cannot cure itself. Yet it is essential for the economic health of the world that it be cured quickly.

No one imagines that the financial agreements alone will remedy this situation. Whether or not the Congress approves the agreements, the British people face a lean period that will continue for some years. But the financial agreements will permit the British to buy food and machinery and raw materials—the first things they need in the effort to restore their economy.

Here in the United States we are in mid-passage in our reconversion. Despite the pressure of events abroad, even a Secretary of State is aware of the storms that delay our passage. Certainly a Secretary of State who was formerly Director of War Mobilization is uncomfortably familiar with the thorny character of price and wage disputes.

Free Commerce Needed

But as Secretary of State I suggest to you that when we have settled the industrial disputes and other problems that are crowding in on us so insistently, we shall become more keenly aware that our ultimate prosperity heavily depends upon whether the economy of the world is free or in chains.

The lawsuits which the Supreme Court is called upon to decide continue to reveal a variety of attempts by the several states to burden or restrict interstate commerce. These suggest that we have not fully learned our lesson even at home.

But no American seriously contends in this day and age that the prosperity of the wheat farmer of the Dakotas, the cotton grower of the Carolinas or the market gardener of California is not directly linked to that of the miner in Pennsylvania and the manufacturer in New York.

We take for granted the interdependence of the national economy. The interdependence of the world economy is less apparent. But it is quite as real. Prosperity here and abroad requires the expansion both of production and of markets.

We know that we in the United States cannot reach and maintain the high level of employment we have set as our goal unless the outlets for our production are larger than they have ever been before in peacetime.

Britain's Welfare Our Concern

Thus Britain's difficulties in returning to normal economic intercourse are of direct concern to us. The economic agreements we have drafted to help meet those difficulties have several objectives.

We have acted first to settle the war account. Those who remember how the last war's debts haunted the world will welcome the expeditious disposal of this issue.

Our claims on Britain and Britain's claims on us for materials delivered under lend-lease and reverse lend-lease and consumed before V-J Day have been disposed of. The victory was the payment we sought for these goods.

But Britain will pay us for American surpluses remaining in the British Isles. A multitude of claims running both ways has been considered, a balance struck, and Britain has agreed to pay, with interest and over 50 years, the sum of 650 million dollars.

The provision of the agreements which has commanded the greatest public attention is the extension of a line of credit to the United Kingdom totalling $3,750,000,000. This credit may be drawn upon at any time from the date Congress approves the loan agreement until Dec. 31, 1951. It will, of course, be used gradually.

The sums actually borrowed are to be repaid during the 50 year period beginning in 1951, with interest at 2%. The United Kingdom may request the United States to waive the collection of interest in any year in which British income from sales abroad and other sources is not enough to enable Great Britain to bring in imports at the average prewar level. This is a wise provision in a contract of such long duration. It is not the course of wisdom to insist on interest payments when world trade conditions may sometimes make such payments impossible.

That, briefly, is the loan. To a transaction of this magnitude it is quite natural that objections should be raised.

I have heard it said, for example, that the credit will contribute to inflation in this country. If a sum of this size were all to be drawn at once and spent for scarce consumers goods, it would indeed be serious. But that will not occur. The British certainly will conserve the funds, drawing from them only as needed between now and 1951.

They will not spend it for consumer-manufactured goods because they make these goods themselves. They will spend it for what they must buy abroad—food and basic raw materials.

Some of the things they buy—for instance, cotton—already are in surplus in this country, and other items doubtless will be in surplus before 1951. We shall soon be glad of British markets for lard, apples, tobacco and no doubt also for wheat after the present shortage has been relieved.

Some of the credit will be spent in other countries, especially in South America. These countries will thus acquire additional dollars which they can use for purchases here.

What the South Americans wish to buy from us is mainly capital equipment: machine tools, diesel engines, generators, and machinery of every kind. The war enormously expanded our productive capacity for equipment of this kind, and increased foreign orders will be warmly welcomed.

The pressure for inflation in this country is great. I would be the last to minimize the danger. But the answer lies primarily in speedy, large-scale production of the things of which we are short. Restricting the ability of foreign purchasers to buy the things we have in abundance only adds an additional handicap to our economy.

Comparsion With World Debts

Another objection has been suggested by history. This is the assertion that the credit will never be repaid. It should be realized, however, that the circumstances surrounding this credit are entirely different from those applying to the British debt after the first World War.

First: That debt was incurred for materials largely destroyed in the fighting—goods that created no new wealth or earning power. This time we are not treating burned out tanks as a commercial obligation. This credit is for new goods which will help create new production and new wealth. Like any good commercial loan, it helps create the means of its own payment.

Second: The earlier British debt was larger than this credit, and the interest rate was higher. The British made full payments all through the 1920's, and continued them until the great depression caused the Moratorium of 1931. Even after that they made token payments in 1932 and 1933. Altogether they paid us over $2 billion, principal and interest. That is not a record of intentional default.

Third: Last time we raised our tariffs in 1921, again in 1922, and again in 1930. The British could only pay us back by selling goods to us, and yet by increased tariff duties we made it harder and harder for British goods to enter this country.

Even more important, last time we and the rest of the world let the great depression happen. When it happened goods stopped moving, and earnings collapsed. It was that, more than anything else, which stopped the payments on the British debt.

This time we are firmly set on a different course. We are not going to raise tariffs. The settled policy of Congress and of the President for more than 12 years has been and is to seek their gradual reduction by negotiations under the Trade Agreements Act. We are seeking to expand trade, not reduce it. And we and other countries are going to take steps to avoid a repetition of 1929.

Britain Can Repay

If business activity remains high and trade large, Great Britain should have little difficulty meeting the agreed payments. If we permit another great depression to occur, we shall lose much larger values than the installments on this credit.

The objection also is heard that, while this British credit is justified, it should not be granted because it will require us to make similar loans to other governments. With this argument I disagree.

This credit is not a precedent for anything. It is unique, because the position of Britain in world trade, her need for working capital and the effect upon world trade of her acquiring that working capital, all are unique.

Other Loans

Several countries do need capital to reconstruct and improve their industry and transport. The Export-Import Bank has made loans for these purposes under its existing powers and will make others, at least through 1946. By that time the International Bank for Reconstruction and Development, set up by the 34 nations signing the Bretton Woods agreement, should be ready to take over much of this activity.

Nor could a loan precedent be established by an agreement which is far more than an extension of credit; by an agreement which is an understanding on over-all commercial policy; by an agreement which thus becomes a joint advance by two of the world's largest economic units on the general problems of world trade.

I say that the agreements provide for more than an extension of credit, because they contain a pledge on Britain's part to remove as rapidly as possible the emergency controls over foreign exchange, to abolish the so-called "sterling area dollar pool," to abandon discriminatory import restrictions, to participate in next summer's negotiations for reduction of world trade barriers, and to support the **Proposals for the Expansion of World Trade and Employment**, which our Government published last December.

Britain to Support Proposals

In my judgment among the most significant of the benefits which flow to us from this phase of these agreements is the British commitment to support the United States trade proposals. By this commitment the British take their place at our side as our economic allies and not our economic enemies.

Before the outbreak of the war, the world was beginning to fall into narrow and tight commercial compartments. In many ways, the war gave impetus to this development. Unless the most powerful and united effort is made now to achieve a sharp about-face, we cannot hope to realize the traditional liberal American dream of a freer world of trade.

The partnership of Great Britain in this undertaking is consequently of the first importance. But it matters not how much the British may wish it otherwise; they can join this partnership only if the financial agreements are approved.

Dropping of Barriers Forecast

If the loan is approved, we can look ahead with considerable confidence to a general reduction of tariffs and the elimination of preferences; to a minimum of quotas and embargoes; to an intelligent and restrained resort to government subsidies; to general acceptance of the rule that international business should be conducted on a business basis and not as a phase of political action.

We can look ahead also to a loosening of the grip of cartels and combines upon world commerce; to multilateral arrangements for the handling of surplus commodities; and to progressive limitation upon export restrictions and price-fixing arrangements.

The United States believes that these objectives will be best served by the establishment of an International Trade Organization under the Economic and Social Council of the United Nations. We believe that the International Trade Organization can become one of the most important foundations of a lasting peace.

The organization gives promise of becoming a strong foundation if it is to include Great Britain. Without Great Britain it might succeed, but its prospects would not be bright. Clearly we have a great stake in this program.

The British credit is a large investment undertaken to gain an ever larger objective. Without it, our efforts to construct an expanding world economy may well be frustrated. With it, we shall have won the support of a powerful ally in our efforts to break down those harmful economic practices which throttle trade, perpetuate poverty, engender ill will among nations, and sow the seeds of conflict.

Dollar-Pound Stability

As you are no doubt aware, before the war the pound sterling and the dollar were the currencies in which over one-half of the world's trade was carried on. It is likely that even a higher share of it will be conducted in pounds and dollars in this postwar period.

It requires no abstract analysis to understand that the free interchange of these two currencies at a stable rate is basic to world prosperity. If interchange is not free and easy, the trade world tends to freeze into two separate areas, each contained within an economic Chinese wall. The commercial horizons for each business man are narrowed, because a large fraction of his potential buyers or suppliers are placed beyond his reach.

But if interchange is free and easy, business men can operate with the assurance that the payments they receive for the goods they sell abroad can be spent anywhere in the world. They are free to seek their natural sources of supplies and their natural markets. When this is true, the volume of trade grows, smoke rises from the factories, jobs are plentiful and pay envelopes full, and farmers can expect a fair return on their crops.

Against the background of these facts, the importance of the financial agreement is clear to see. The British today have very few dollars with which to pay for the imports they require. They are forced to conserve these dollars. As I read in the newspapers a few days ago, one way in which they have conserved dollars is by cutting from their menu the dried eggs they had been obtaining from the United States. The same newspaper account added that the British Admiralty has ordered British ships to avoid the Panama Canal as much as possible because of the dollars toll.

The British Alternative

Unless the British receive this loan of dollars from the United States, only one course will be open to them. They must buy what they need almost exclusively from the countries which normally buy equal or larger amounts from them. Or they must buy from countries which are willing to accept payment in pounds and spend the pounds for goods in Great Britain or in some other part of the sterling area.

Since this is not the way trade arranges itself naturally, Great Britain would have to do this by government decree. The war controls would have to be continued, not relaxed, and they would have to be extended. These controls would necessarily discriminate against the United States, because in normal times our sales to British customers are always larger than our purchases from British sellers.

I have discovered in my own thinking about these matters that concrete examples are most helpful. As an illustration of how the United States suffers from the so-called sterling bloc arrangement, let us suppose that a business man in India makes a sale of cotton to an importer in England.

The man from India receives pounds sterling for this cotton, not dollars. But he does not even receive pounds sterling in a manner which permits him to convert them into dollars without an official license. The result is that the business man in India cannot, even if he wishes, use the proceeds of the cotton sale to buy electric motors in the United States. If he needs electric motors, he must purchase them in England or in some other sterling country.

A further result is that the electric motor manufacturer loses the opportunity to sell his wares.

Eliminates Trade Wars

Sooner or later, if this situation were prolonged, the United States might find it necessary to retaliate in kind against this discrimination. This is not a prospect which anyone in either Great Britain or the United States, or in any other country, can relish.

Fortunately, if the financial agreements are approved, this unhappy prospect is removed. For in the agreements, the British Government makes a firm commitment to terminate and modify these restrictive trade practices.

They agree that from the effective date of the agreement, United States business men who sell to customers in Britain can get their payment in dollars, which they can use wherever they choose.

They agree that within a year of the effective date of the agreement and in countries where the principal international currency is the British pound, they will make arrangements for the free interchange of pounds sterling and dollars.

They agree that within a year, in transactions with all countries, pounds sterling will be exchangeable for any currency which may be desired by a seller to a British purchaser.

You will realize that I have not attempted a complete discussion of the problems of empire preferences, the so-called sterling bloc, the 14 billion dollar British sterling debt and other related matters, nor to describe in full the provisions of the agreements which deal with these problems.

The U. S. Gains

But I have said enough, I think, to indicate how mistaken it is for some to say that the United States gains nothing from these agreements. The specific British commitments to which I have just referred, coupled with their commitment to support our trade and employment proposals, are tangible, firm gains for the United States and for the rest of the world.

What we gain is the chance for expanding world trade, for freedom for goods and money to flow where they may, for a prosperous world and not a lean world.

The British credit is a large investment undertaken to gain an ever larger objective. Without it our efforts to construct an expanding world economy may well be frustrated. With it we shall have won the support of a powerful ally in our efforts to break down those harmful economic practices which throttle trade, perpetuate poverty, engender ill will among nations and sow the seeds of conflict.

Mail Privileges Restored to "Esquire"

The U. S. Supreme Court on Feb. 4 ruled against Post Office Department action to bar second class mailing privileges to "Esquire" Magazine. Justice Douglas delivered the high court's 8-to-0 decision. Justice Jackson took no part in the case. Stating that the verdict upheld a lower court decision, Associated Press advices from Washington Feb. 4 said:

Former Postmaster General Frank C. Walker banned "Esquire" on the ground it did not meet a postal law requirement that to use the inexpensive second class privileges a publication must "disseminate information of a public character" or be "devoted to literature, the sciences, arts or some special industry."

Present Production Problems

(Continued from page 839)

products, but still we fell far short of our mark.

I want to indicate to you briefly at what great costs this production was achieved. This is important because we at Ford are, in fact, in the midst of a gigantic gamble—a gamble on the American people and the future of the free enterprise system in this country.

The Super Deluxe Tudor is the most popular of our Ford cars. In 1941, a Super Deluxe Tudor Ford just rolling off the final assembly line represented a total manufacturing cost of $512. It took 87 hours to build. Materials costs were $304, direct labor costs were $76 and overhead amounted to $132.

Now this same car rolling off the assembly line 12 months later —1942—represented a total manufacturing cost of $681 instead of $512.

Why the increase?

Well—it took 15 more hours to assemble the 1942 car than the 1941. Direct labor costs instead of being $76 were up to $124. Material costs had gone up from $304 to $343 and overhead from $132 to $225.

Ford production of pleasure cars had to halt for the war, so it is necessary to skip for any comparisons to November, 1945—three months after V-J Day. That, by the way, is the month in which we expected to get back into full post-war production. By that time we hoped to be turning out enough cars to get our costs down—because as you all know, a big mass production operation is economical when it is running at top speed, but it is a mighty expensive way of producing a very small number of cars.

Looking at the November, 1945, cost records on the Super Deluxe Tudor Ford, when production figures were comparatively low, we find that the total manufacturing cost of this most popular of all Ford models added up to $962—41% more than in 1942 and 87% more than in 1941. The car which it had cost $512 to build in 1941 and $681 in 1942 cost $962 in 1945. The breakdown is this:

Instead of building the car in 87 hours, as we did in 1941, or in 102 hours, as we did in 1942, it took us 128 hours. That's an increase of 47% over 1941. These figures, by the way, demonstrate pretty well why we have sought solid assurances of increased worker output from the Union. Our search for ever lower costs has no chance of success if this trend is not sharply reversed.

Labor costs, in short, rose to $152—almost 100% more than in 1941, and overhead costs increased to $354 or 167% more than in 1941. "Overhead" includes cost of plant maintenance during work stoppages.

Bear in mind that the figures I have been quoting you are merely manufacturing costs. They do not include the costs of sales and distribution, nor anything for profit. Adding all these other factors, but allowing ourselves nothing for profit, our total costs, as many of you will probably have estimated already, were at least $1,000. As a matter of fact, they were $1,041.26.

It will interest you to know that in that some month—November, 1945—we were authorized by the Office of Price Administration to sell for $728 this car which cost us—without profit or anything "to grow on"—$1,041.

The Supply Problem

Let's take a look next at the supply problem. I am sure that the problems I am outlining and the conditions I am describing are familiar to you.

There are some days on which the mailman brings us more from our suppliers than the railroads do.

The problems of our suppliers are of three kinds. Some of them cannot send us anything because of strikes and work stoppages. One such strike cut off our supply of essential truck parts entirely—notably wheels and brake assemblies. When our stock pile of these items was exhausted we couldn't do anything but shut down and tell our employees to go home. This situation, incidentally, is being repeated today in even more drastic proportions than before because of the steel strike. In January for the first time we reached scheduled production. But on Feb. 1 we had to start closing down our assembly lines because of lack of supplies. Today a majority of our assembly plants are shut down and they will all be closed soon unless the steel situation is cleared up immediately.

Some suppliers, on the other hand, have had to reduce their deliveries to us because they cannot hold their employees. They are unable to increase their pay rates enough to hold their men. If they paid their workers enough to hold them, the cost of their production would be so high that they couldn't help but lose money at the existing price ceilings. They are in the same boat we are when we sell for $728 a car which costs us more than $1,000 without allowing anything at all for profit.

Many such suppliers just cannot manage that. Some of them—in order to stay in business in the hope that something will happen to save them—send us supplies, but in a very much reduced quantity. They still lose substantial amounts on every item they send us—but they are sending us fewer items to keep the total loss low until a solution to this whole problem is found.

There is a third group of suppliers who have taken another road out. They, too, find their costs way above the selling price they are allowed to put on their products, but they have merely switched over into some other business where there are no ceiling price problems. A foundry which has supplied us for many years with gray iron castings gave us our patterns back not long ago. During 1945 they lost $330,000 because the cost to them of producing the castings we needed was above the price at which they were allowed to sell us castings. They told us they were sorry but they couldn't afford that kind of losses.

Price Ceilings

Price ceiling play havoc with our production efforts in a number of ways. Consider this case, for example. A supplier had been making thousands of small but vital truck parts for us for 50 cents each. His material prices had gone up so much after V-J Day he asked OPA for permission to charge 81 cents. OPA said "No." They were willing to go as high as 54 cents but the supplier couldn't produce parts at that figure and so he went out of the business.

We, of course, had to look for a new source of supply. We went shopping immediately and finally got two new suppliers. One is now furnishing us with the necessary parts at 82 cents and one at 84 cents each, both with OPA approval.

I am not here attacking the Office of Price Administration or any of the other Government controls which have produced and are sustaining the conditions I have described. Neither I nor the Ford Motor Company should make any such sweeping condemnation. There may be sound reasons in the public interest why the system should be continued at least in part.

Ten days ago I wired Mr. John Snyder, Director of Reconversion, and described the situation in which we found ourselves. I take the liberty here of repeating a paragraph from that telegram:

"Nobody wants runaway inflation, but if we continue to stifle American industry's ability to produce, that is exactly in my opinion what we are heading for. Inflation exists when there are too few products for people to buy with the money they have. Inflation grows out of scarcity."

Ford's Alternatives

As we faced facts like those which I am reciting to you we faced, it seemed to us, these possible choices:

First, like some of our suppliers, we could decide to close up shop. We could tell our employees to take a vacation without pay until the time came when conditions would permit us to operate again under the only conditions which seem to us to promise large production and low prices—namely under a free, fair and vigorous competitive system.

We really never considered that road. The Ford Motor Company means too much to too many people for us seriously to consider that way out.

Second possible choice was to denounce Government controls, attack OPA, take our case to the American people.

We didn't take that road either. We have continually laid our case before Government and the OPA itself, but if price control is in the public interest and a majority of the people of this country think so, we are prepared to do our very best to live under existing conditions.

The **third** possible choice, as we saw it, was to stick it out and to do our utmost to produce. It is our feeling that this country and the people in it—and that includes especially the working men in this country—face a very great danger unless the production of goods can be vastly increased. People have money. It is money which can be thrown into a panic. It is money which can rush hither and yon pushing up prices, creating black markets, blowing up the whirlwind of uncontrollable inflation.

The Decision

The decision which we made, therefore, was to take a very big gamble. We decided that we should do everything in the world that we could to produce automobiles. It seemed to us that the greatest contribution we could make as citizens of a great country would be to get the assembly lines moving, to get out the cars, to help meet the national threat of inflation which exists in free money that wants to buy but can't find the things to buy which people want and need.

I do not think that I should say to you that we are taking a great gamble without supporting that statement.

In the first place the Ford Motor Company has taken all of its war earnings and is plowing them back into the business. Every penny has been committed to the improvement and expansion of the plant, machinery, and facilities for the comfort and convenience of employees.

Here again we are putting our bets on the future — on going ahead—on getting greater production and, what is just as important, greater productivity.

In the second place, we are assuming that the price ceiling problem will be solved. How big a gamble that is, we do not really know.

In summary, we may lose very substantially in 1946, but we will be on the way.

Value of Ford Reserves

And while we are on the subject of losses I would like to note, if only for the record, that we could not take these chances if the Ford Motor Company, like other companies which manage to survive and grow over the years in face of all the uncertainties of business and industry, had not been building up reserves to finance itself in moments of emergency. It has become somewhat unfashionable to speak of making profits, as if it were an un-American notion. But only out of profits can any established business get the funds for research for better things and better ways of doing things. Only out of profits can come the capital for new tools, new plants, new techniques in production. Only out of profits can come higher wages, improved working conditions, and new opportunities for employees.

Work Together to Produce More

It seems to us that there is one possible solution to our problems —yours, and ours, and the problems of all of us in this country. It seems to us that the one promising road to peace and plenty is for all of us to pitch in and work —for all of us to produce—for all of us to set aside all other considerations until some future date and to meet the current problems of our country and the world by the kind of production that comes from hard, honest work.

Somehow, it seems to me, if we do that we will get out of the many jams in which we find ourselves. We must use our greatest ingenuity and effort as manufacturers to manufacture in the face of very great obstacles. We must use our great ingenuity and effort as labor leaders to meet the problem of a falling productivity rate among workers. We must use our greatest ingenuity and effort as Government officials and legislators to get us clear of unnecessary entanglements and out in the open again.

We must popularize the notion of work—and the best way to popularize it, that I know of, is to **do** it. A recent opinion poll shows that less than 45% of factory workers belonging to unions think they should turn out as much work as they are able on any job and 44% of them say a man should do about what the average of his group does. Among non-union factory workers 60% think a man should do all that he can and 33% say he should do about as much as the average man in his group. If this fairly represents the attitude of union men compared to non-union men, then I think our friends among the union leaders have a big educational job if labor and management working together expect to do a real job of work for the American people. And if only 6 men out of 10 non-union men believe in doing their best, then I think we all have a job to do.

The reconversion battle is not going to be won by speeches — mine or anyone else's. It is not going to be achieved by recriminations, newspaper battles, memoranda or essays, but by hard work.

E. M. Growney to Form Own Firm Shortly

E. Michael Growney will shortly form Growney & Co., Inc. with offices at 37 Wall Street, New York City, to transact a general broker-dealer business in securities. Mr. Growney has been in the unlisted trading department of Bonner & Gregory.

Balance the Budget or Bust

(Continued from page 833)

fact is that some of our citizens will, under a system of progressive tax rates, have to bear virtually all of the tax burden of the debt and that some—not all—of our citizens hold the Government securities. *It is a colossal swindle for our people to be told that debt does not mean anything; debt is, in fact, the most profound and pervasive fact of our time. For decades ahead we shall be adjusting our economic life to the many and difficult problems growing out of our bloated public debt.*

Budgetary Balance Necessary Because of Dependence of Financial Institutions on Government Credit

Another reason for balancing the budget is that such action is needed to restore confidence in the basic fiscal integrity of our Government. *The soundness of our monetary and banking system depends on confidence in the Government's fiscal probity. This is a fact of massive significance*, for two-thirds of our money supply rests on United States Government securities and the money supply has expanded to nearly three times its size when war broke out in 1939. *Government securities now represent about 80% of the earning assets of the commercial banks, about 65% of the earning assets of the savings banks, about 50% of the total assets of the Federal Reserve Banks, and about 45% of the assets of the life insurance companies of the Country.* The stability of the financial institutions necessary to the functioning of our economy is now dependent on the credit of the Government, which in turn must rest on a sound fiscal system.

Let me emphasize that there is in what I have said above no implied criticism of the fiscal policies of the recent past. When the monetary and speculative excesses of the 20s finally culminated in one of the most vicious deflations of modern times, private credit collapsed. The Government then appropriately came to the rescue by using its own credit to reestablish confidence in an obviously dangerous structure. Then, after an interval of largely misguided efforts to force recovery by pump-priming, war again required the unstinted use of the Government's credit. War fiscal policies may not have been perfect, but within the framework of a democratic system, tax policies probably were as severe as anyone had any reason to expect. The Congress rightly hesitated to levy taxes which would involve the risk of forcing people of moderate means, whose incomes were not expanded during the war, to liquidate their homes, insurance and securities, for such people represent the great stabilizing political force in a society such as ours. The War and Victory Loan Drives represented a great effort to finance the war from funds obtained from non-bank investors and those Drives were reasonably successful. Mistakes were made, to be sure; they were to be expected when our fiscal authorities were faced with the need for financing war expenditures of up to $100,000,000,000 per annum — an amount materially in excess of our total national income in peace time.

This, therefore, is no time for acrimonious debate as to what might have been done. But the facts of our present position demand that we return immediately to sound and time-tested standards of fiscal conduct. *We have used our fiscal reserves so lavishly that it will be very serious indeed if we resume the deficiteering of the '30s in the decade ahead. We could afford to make mistakes with a debt of $25 to $50 billions but when the Government's debt is $275,000,000,000 we must forego the easy course of spending more than we take in.*

A balanced budget now would attest the nation's determination to keep its credit standing inviolate: a continuance of deficit financing would imply that we had lost our claim to integrity in fiscal affairs.

Budgetary Balance Necessary as Insurance Against Inflation

A third reason for balancing the budget is that without it we cannot insure ourselves against inflation. Much of what we have been hearing recently on the subject of inflation is economically naive. But everyone who has cut his eye teeth in these matters knows that the danger of inflation can be eliminated only by a return to policies of fiscal solvency, so that the nation's money supply will not continue to be increased by bank financed deficits, and if production is increased so that the demands of the people for goods can be met. How infrequently have we heard from significant Government officials any statement which even touches the heart of this problem. They declare frequently that labor must get this or that; but have we heard anything more than half-hearted warnings from them that, if excessive labor demands cause a wave of strikes, production will be reduced and the danger of inflation immeasurably increased? And have we heard from more than a few of our Government officials any really impassioned pleas that the budget be balanced or any really strong warning that if it is not we shall ultimately face a condition where inflation will be almost inevitable?

Inflation is vitally dangerous to everyone, and not to big business alone. It works the greatest hardship on the wage-earners and the recipients of fixed incomes. The Government has an obligation to these people, and to the millions who have placed their savings in Government Bonds, life insurance and savings deposits, to assure them that their money will not be lost through a decrease in the value of the dollar.

During the war Government deficits were unavoidable. There is no point in debating here whether they might have been held to lower limits, for nothing we can do now can reduce them. But they have left their heritage in about $100,000,000,000 of new deposits and circulating money in the hands of individuals which, if spent in addition to the current incomes received by the people in the years to come, cannot help but exert a strong upward pressure on prices.

This new money may not all be spent in the near future; but while it exists the threat to price stability will remain. It would certainly be asking for trouble under the circumstances if we were to add to the volume of liquid purchasing power by incurring further deficits. *The time has come to turn off the spigot of unnecessary Government expenditures so that we can, by balancing the budget, stop the rapid expansion of money supply which began in 1933. This is the only way to make certain that we shall not experience an inflation which would leave the nation's productive and financial organizations prostrate.*

Budgetary Balance and Debt Reduction Necessary to Give Federal Reserve Freedom to Use Its Powers

The size of the public debt makes it difficult if not impossible to use the traditional instruments of quantitative credit control in stabilizing prosperity once it is reached. The Federal Reserve Board is charged with the responsibility for holding bank credit expansion in check when prosperity threatens to be transformed into an inflationary boom, and for encouraging credit expansion when business is falling off. This, the Federal Reserve Board can do by changes in rediscount rates to make borrowing from it more or less expensive, and by changes in member bank reserve requirements, or by changes in its portfolio of securities to reduce or expand the ability of the banks to make credit available. But the use of any of these devices inevitably has an effect on interest rates. And, here is the rub. *As long as the Government must borrow to meet large deficits it will be fearful of any action which might disrupt the market for its securities, and the Federal Reserve would not be free to use its powers to tighten money rates even though the economic situation in general were urgently to call for restrictive action.*

With the customary instruments of credit control impaired the chances of checking an inflationary boom will be greatly reduced. Thus, constructive action to balance the budget and reduce the debt has become imperative in order to restore the potency of these control devices. It is not too much to say that without budgetary balance, debt reduction and policies which will encourage non-bank investors to buy securities, so that present abnormally large bank holdings can be reduced, the Federal Reserve Board will be powerless to fulfill its intended role of stabilizer of the supply of money and credit. This is a serious matter, for a powerful central bank organization is an essential agency in the modern world. It is time now to restore the power the Federal Reserve lost when it had, necessarily in wartime, to consecrate itself to the defense of the price structure of the public debt.

Debt Reduction Necessary If Private Enterprise Is to Expand

Another reason we need not only to balance the budget but to reduce the debt substantially is that nothing less will provide a sound basis for enduring prosperity. Under existing circumstances, continuing deficits or a disposition to regard mere balancing of the budget as the maximum attainable goal will inevitably foster uncertainty as to the prospects for inflation and the safety of our financial structure. Such an environment is not conducive to active business expansion. It fails to provide business men with a sound basis of confidence in the future on which to plan an expansion in their operations, and it fails to afford investors a reasonable basis for judging business risks. It may well stimulate speculation but kill investment in the true sense of the word.

Debt Reduction Necessary If We Are to Accumulate Reserves of Borrowing Power for Use in Later Emergencies

Debt reduction is essential also because we need to build up a reserve of borrowing power so as to put the nation in a position to cope with future emergencies. Many of those who try to convince us that "debt does not mean anything" apparently believe that the nation will never again face an emergency where it will have need for the use of its reserves of financial strength. This is a curious thing, for the people who preach this philosophy are in the main those who have been in position of responsibility during a period which has been marked by a series of serious emergencies. It is difficult to see how they can be so sure that the programs they recommend for use today will prevent emergencies when the policies they recommended in the past have only brought us from one emergency to another. It is interesting to note that the emergency which was proclaimed during the bank holiday of 1933 has never officially been terminated. It is to be hoped that the nation is moving out of the phase of continuous emergency; but it would be foolhardy to assume that we shall never gain have need to use our credit. We shall be in a better position to cope with difficult situations as they arise, to borrow on favorable terms, and to borrow without upsetting the balance of the economy, if we have balanced the budget and have made substantial progress in debt reduction during years of good business and high national income. Nearly everyone agrees that once we have bridged the reconversion gap between war and peace a period of potentially great prosperity lies ahead. That period should not be allowed to pass without substantial progress in debt reduction.

Every increase in the public debt increases the burden of taxes which must be levied to pay interest. Even at the low level of interest rates now prevailing, the interest charge alone is nearly as large as the largest tax revenues in any year in the prewar period. Under such conditions as we shall face, it is imperative that we reduce expenditures wherever possible to lessen the tax burden on investment and enterprise. The interest savings from debt reduction may be small but they are not negligible, and they are cumulative—every one makes the next one easier.

A Program for Balancing the Budget

A balanced budget in the future is attainable. I want to emphasize this, for it was only recently that the Secretary of the Treasury said the same thing and it was an interesting fact that it came as quite a surprise that anyone in the Government could believe that budgetary balance was possible. It is a fine thing for him to have made such a statement but let us not take too much encouragement from it, for the Secretary made it clear that he would expect balance in the fiscal affairs of the Government only if taxes remain high; and he assumed a colossal level of expenditures. This same point of view is reflected in the President's budget message. But taxes should be and are probably going to be reduced, for everyone knows that present tax burdens represent a solid and impenetrable barrier to large-scale new investment by private business. The need is to balance the budget by curtailing expenditures, not by holding taxes at enterprise-breaking levels. We must gird ourselves for a real fight to resist the demands of pressure groups for increased expenditures and to stand firm against appeals to spend money for impractical and self-defeating programs like those so popular a few years ago.

At this point it is appropriate to take note of the tendency to assume that our Federal Government necessarily must spend $20 to $25, or even $30 billions per annum in the years ahead. Aside from the fact that in the five years 1936 to 1940, years not notable for the timidity with which the Government spent money, expenditures averaged $8.3 billions, it is abundantly obvious that we shall need no such level as even $20 billions when war-connected expenditures have been completed. I submit that the Federal Government can limit its expenditures in the following rather obvious ways:

(1) By planning military expenditures so that the country will at all times be able to mobilize quickly to fight tomorrow's battles with tomorrow's weapons, instead of maintaining an organization fully mobilized and ready to engage in global conflict at a moment's notice. We should be able to maintain a high military potential, extend our system of military education, maintain a great laboratory and experimental organization to develop the most powerful weapons and the "know-how" to use them, and have a productive plant ready to produce the mechanisms of war on short notice at an annual cost of not more than $3 billions. It is obvious that we undermanned our military establishment in the years preceding World War II. Our average annual expenditures were only $700 millions during the period 1925 through 1937. But if in that 13-year period military expenditures had been $3 billions per annum instead of only $700 millions, we would have invested $39 billions in the military instead of only $9 billions. Much of the talk of necessary military expenditures of $10 billions or even more per annum is as unrealistic in one direction as were our prewar policies in the other.

(2) By replanning our public works program so as to eliminate all Federal public works except those which can be justified as aids to production. We should know by now that public works expenditures are not a sure-fire road to real prosperity, that if such expenditures are undertaken when business is good they help to turn prosperity into a temporary boom, and that if they are undertaken when business is bad they act as a cushion against the ill effects of depression. Federal public works expenditures should be close to zero in good years, so that they can run to as much as $3 billions in years of bad business, and it ought to be clear to anyone that with a debt of $275 billions we are not in position to finance any except essential public works.

(3) By eliminating the superfluous, unnecessary and costly aids to agriculture. Farming has become one of the most prosperous industries in the country and it is absurd for those who construct the postwar budgets to assume that the bonuses, subsidies and grants, which had some justification when agriculture was prostrate, should now be continued. We need a house-cleaning in this area and a few hundred millions per annum ought to be ample to finance the indispensable research and the regular costs of the Department of Agriculture, which today is greatly overmanned.

(4) By subjecting governmental departmental costs to a searching investigation. With a debt as high as that we now have, it is time that the nation's leading management consultants and efficiency experts be employed by a joint Congressional and Administrative Committee to make a thoroughgoing analysis of how Government costs can be cut and Governmental efficiency increased. This is no time for reshuffling Government agencies or for well publicized but generally insincere attempts to reduce expenditures. With a Government as far in debt as ours is at the moment, we need immediate action to assure efficiency in our Government.

(5) By liquidating the institutions of emergency credit, such as the Reconstruction Finance Corporation. They will not be needed in the good times ahead and, moreover, it should be remembered that they were designed as emergency and not as permanent organizations. They were not authorized to effect reforms, to take the place of existing financial institutions or to act as a club over such institutions, but simply to alleviate temporary distress. They did an essential job and in times of crisis should they re-occur, they may be needed again. But the time has come to instruct the emergency corporations to liquidate their present assets

and to cease spending the public's money until they are again needed.

(6) By deferring establishment of a "cradle-to-the-grave" Social Security program until the nation can afford it. It would be only fair to extend the coverage of old age insurance and the range of protection afforded by unemployment insurance to everyone who needs it; but the country would be well advised under present fiscal conditions to resist the pressure of the Federal Government for new and ambitious social programs. Our people need jobs, not more insurance.

If a program† such as this were adopted Government expenditures in years of good business would be under $15 billions, which would enable us to reduce the tax burden to a point where capital could come out of the storm cellar and get back to work. We could, furthermore, with corporation income taxes of about 20% and levels of taxation on individual incomes considerably below those of today, have receipts in years of good business of $16 to $20 billions or thereabouts. This would make it possible to retire our debt at a rate of $5 billions or more per annum in good years and to hold the deficit in years of poor business to a figure not much larger than that, even though receipts were reduced and expenditures increased.

Let no one tell you that budget balancing is impossible in the years ahead. It will not be easy, but it can be done if we are determined to get our fiscal house in order.

Reorganization of Budgetary Function Desirable

The need is so pressing and the problem so difficult that basic changes in the budgetary practice of the Government and in the legislative procedure of Congress may be called for. Our present budgetary technique is inadquate in the sense that there is no agency in either the Administrative or Legislative Divisions of the Government which administers the budgeting function in the way that has become commonplace with well managed business organizations. In the Congress, proposed taxes are taken up by one pair of committees, proposed expenditures are considered by another pair of committees; there is little coordination of their work. Expenditures frequently are considered without relation to the tax revenues which will be available; taxes are levied with little consideration of the amounts that it is proposed to spend. With budget balancing so pressing a problem, some means for coordinating the activities of the appropriation and the taxation committees would appear to be called for.

The budgetary situation in the Administrative side of the Government also leaves much to be desired. To be sure, there is a Bureau of the Budget and it prepares for the President a document entitled "Budget of the United States," which is full of figures and about the size of the telephone book for a city of one to two million people. But that report is little more than a tabulation of the expenditures which the agencies hope to be able to induce Congress to approve and an estimate of taxes which are likely to be collected if there is no change in existing tax rates. These documents rarely give evidence of any serious note concerning the need for reducing expenditures when a deficit is anticipated. This is not surprising since the Bureau is part of the Office of the President and the Budget Director is appointed by the President. The Bureau thus is not in a position to strike out at administrative agencies, which are always jealous of their activities and ambitious for more money, since the heads of these agencies were appointed by the President too.

With Budget making so casual a process, it is not surprising that a budgetary balance—in those infrequent years when it is attained—comes about mainly by accident and not by deliberate plan. It is time now that we plan for budgetary balance and, while better budgetary coordination between the work of the Congressional Tax and Appropriations Committees and the work of the Budget Bureau would be a step in the right direction, little is likely to be accomplished until there is a firm conviction on the part of both arms of the Government that we must restore balance between income and outgo.

Let me emphasize that continuous balance in the budget year after year is not necessary nor to be expected. There will be, unquestionably, some periods of business recession when tax receipts will fall off. It may be necessary at times for the Government to undertake useful public works and to spend money for the relief of unemployment. But, it should be possible most of the time to have a budget surplus. We have had enough of deficits for their own sake, deficits to prime the pump, deficits to offset unbalance in savings and investment, deficits aimed at maintaining purchasing power and deficits to prevent depressions which are not even in sight. All these panaceas are self-defeating and none of them has worked, for depression and unemployment have continued—until wartime—to be our lot. The time has come when we have no alternative but to try a more conventional device — namely, a return to policies of fiscal solvency; and I venture to predict that if we do so we shall enter one of the greatest periods of prosperity this nation has ever experienced.

I want to end this address by repeating the statement with which I started it:

It is time to balance the budget and reduce the debt of the Federal Government by a vigorous retrenchment in expenditures: that is the categorical imperative of our time.

†For a detailed discussion of the program outlined here, see "Prosperity: We Can Have It If We Want It," by Donald B. Woodward and Murray Shields.

Veterans Taking Courses At N. Y. Inst. of Finance

The basic courses of the New York Institute of Finance, designed for professional Wall Streeters, are being rapidly filled by veterans of the armed services, it was announced by the Institute on Jan. 30. Registration thus far for February classes it is stated exceeds by 10% the Fall Term total. Most popular courses are "Work of the Stock Exchange and Brokerage Office Procedure," "Accounting Principles," and "Security Analysis." It is added that the demand of experienced market analysts for Harold Young's bi-weekly class in "Current Development in Utilities" has made it necessary to schedule a repeat session on alternate Wednesdays following the Tuesday lectures. More than a hundred it is noted are registered in this class.

C. S. Wurts & Co. Reopens in Phila.

PHILADELPHIA, PA.—Charles Stewart Wurts, Jr. and John Wister Wurts have resumed the investment business of C. S. Wurts & Co. from offices at 123 South Broad Street, after completing war duty.

Harlow on Lazard Staff

W. Frank Harlow has been added to the staff of Lazard Freres & Co., 44 Wall Street, New York City.

The "Freezing" Cure

(Continued from page 832)

intellectual "weight" of the professors involved. Nor has the Board accepted any such plan, or even admitted it for official consideration. The interest in the odd project is due to the fact that some freezing procedure, irrational and temporary as it may be, is the logical and inescapable sequel if deficits should be continued, cheap money rates maintained, and at the same time price inflation should be "controlled." By prohibiting the liquidation of the bulk of bank-owned paper—or alternately, by shifting that volume of bonds to the Federal Reserve Banks, and raising the reserve requirements for banks proportionately—the Leland-Seltzer plan claims to accomplish the three-fold objective: to lower the interest rate in favor of the Treasury and at the expense of the banks (respectively, of their depositors); to "restore" the Federal Reserve's "control" over the banks; and to avoid the inflationary danger which the monetization of bank portfolios would imply.

The Leland-Seltzer concoction would accomplish only the first objective: to cut substantially the bank's income. But it would not stop the monetization of the debt. As a matter of fact, it "neutralizes" merely a part of the outstanding bond volume. Savings banks and associations are exempt, only commercial institutions (both member and nonmember banks) being covered by the project. Even the latter are supposed to keep a substantial fraction of their holdings in marketable form, permitting its sale to the central bank. Many billions worth of certificates might be turned into actual purchasing power, which is exactly what the project was supposed to avoid. Even the frozen part might be thawed out; the banks can sell their fixed holdings to the Federal Reserve, or rediscount them, to the extent that they lose deposits.

Ineffective Sterilization

Briefly, the "sterilization" of bank portfolios would be neither complete nor effective. It would crack when its working is expected: if and when the credit structure, overloaded with bonds, should come under the strains of the vast demand for funds typical of an upturn. But the freezing project altogether ignores the really urgent problem of "managing the debt." The problem is not the bank holdings, as the Reserve authorities seem to assume. For the time being at any rate, the banks are likely to hold on to their portfolios which provide them with badly needed earnings. The crucial question is, or may be soon raised by the federal securities in the hands of the public—individuals and non-financial business units—amounting at present to approximately $100 billions. How much longer will these bondholders wait before resorting to a major liquidation? With the banks and the Reserve System the only outlet, the inflationary impact of such a liquidation should be obvious.

All-Round Freezing

To be effective, the "freezing" would have to be all inclusive. The savings bonds, in particular, should be deprived of the 60 days' redemption privilege. Short and long term paper in the hands of nonfinancial corporations, etc., would have to lose its marketability. And that's not all. If people are permitted to withdraw their deposits from banks and liquidate the cash surrender value of their policies, the whole freezing scheme would collapse. In short, everything has to be tied up if any single item should be immobilized: the American people will have all the money in the world, but they will not be permitted to use it. ("The money is ours, but we won't see it," says an old bankers' adage.) To be sure, security markets and commodity prices must be frozen, too. The entire financial structure has to be put into an ice-box, so to speak, to accomplish the two contradictory objectives: of keeping interest rates low, and avoiding at the same time a run-away price inflation.

An example may illustrate how one freezing leads to another, with the necessity of iron logic. Suppose the commercial banks would be put under the rule of 50% bond holdings against their deposits, in addition to, say, 20% immobilized in legal reserve requirements. Most of the remaining 30% is already invested in loans, leaving a margin of 5 to 10% for credit expansion, including the purchase of new bonds. But in an industrial boom as is ahead of us, and given the banks' practice of keeping "excess reserves," their ability to lend would be exhausted pretty soon. The customer looking for a perfectly legitimate mortgage loan, as an example, would have to go to a savings bank or an association, which in turn will find itself soon "overloaned." What then?

The outcome should be obvious. Would-be borrowers searching for money would soon find private lenders, of course at much higher rates. In the place of banks, **black markets in credit** are bound to pop up. Nothing short of freezing the deposits could prevent a man from loaning his balance to another man. A Super-Regulation "W" might eliminate finance companies and kill all charge accounts, but it could not stop Mr. A from financing Mr. B's purchase of a house or a car. The business of wildcat "factors" and userers would flourish. As to corporations, they would have to go to the security markets even for their short-term money, and the investment bankers would get the profits—unless they, too, are put out of business or the security markets are closed effectively.

The British Pattern

As so many other New Dealish tricks, the freezing concoction is not even original. It is borrowed from the British (who in turn learned it from the Nazis). It originated there in the form of the war-time device called deposit certificates: the Exchequer laying its hands on "unused" bank deposits, paying an arbitrary $1\frac{1}{4}\%$ interest, that has been reduced lately by usage to $\frac{5}{8}\%$. Presently, the avowed intention is to freeze the deposit certificates, thus relieving the government from the burden of replacing or redeeming them, and providing a forced loan, in effect a perpetual one, at a fantastically low rate, which leaves no profit to the banks. Naturally, this partial freezing has to be supported by more freezing measures. Accordingly, the Act nationalizing the Bank of England gives the central bank the power to direct the funds of the big banks one way or another. The obvious purpose is to eliminate, if necessary, the competition of commercial loans with the government's issues. In addition, the Laborites are instituting an investment board to supervise and check the capital market, evidently for the same purpose of freezing it, if and when the dispersal of private funds should threaten to burst the dams of the price systems.

Conclusions

A few practical conclusions emerge from the foregoing discussions:

(a) There is just **no way to control money's velocity of circulation**, short of totalitarian methods which would end all economic freedom. In a depression, people liquidate claims and hoard the proceeds; they spend and lend in an inflation. That spending and lending can be controlled in an effective fashion only by **deflation**, by reducing the monetary flood, not by freezing it.

(b) **Some partial** and therefore ineffective **freezing**, directed against the banks, **is most likely to be undertaken.** It may pass Congress as an "economy" measure (at the expense of the banks). It must be limited, however, because any generalized action would create a run on the banks by depositors fearing for the liquidity of their deposits, and by savings bondholders on the Treasury.

(c) So far, the Treasury managed to lower interest rates with the aid of the printing press (called open market operations) and other policies. From here on, major reductions can be accomplished only by actually forcing the banks to hold bonds at uneconomical yields. This is the prime purpose of the forthcoming partial "freeze." The banks will try to recoup by grabbing at such long-term governments and high-grade corporates as are available, the yields of which will then decline, too. **All-round decline of the long-term rate** from about 2% to $1\frac{1}{2}\%$ or so, and consequent **rise of corporate bond prices** (with high-grade municipals lagging behind) are therefore a "sure bet."

(d) That will not stop the monetary inflation caused by more government deficits, nor the rise of the monetary velocity through the disbursement of accumulated corporate and private savings. On the contrary, it will promote both. Lower interest rates are a psychological incentive to more deficit financing. The relief felt by the Treasury because a substantial fraction of its outstanding short maturities need not bother it any longer, is an additional inducement to further borrowing from the banks. Borrowing from the banks, or rather from the Reserve System, will become the more unavoidable since lower interest rates will discourage the private purchasing and holding of government bonds. As a matter of fact, the continuation and intensification of the Cheap Money policy will be one of the forces upsetting the "applecart": it will contribute to the **early dishoarding of the money tied up in savings bonds,** to the flooding of the commodity markets by excess purchasing power, and the inflating of prices.

(e) **Skyrocketing bond prices pour oil on the fire of rising stock and real estate values.** Their rising tide is further enhanced by the prospect of increasing monetary volume (deficits) and higher monetary velocity (dishoarding). That will call for **measures to control the real estate and stock markets.** The effect of the 100% margin requirement is virtually nil. If Mr. Eccles gets what he wants, the lengthening of the "grace" period in the framework of the capital gains tax—which is doubtful—the markets might "collapse" temporarily. A similar result might be brought about by a stiff sales tax on capital transactions. But given a highly inflated monetary system, all such measures would lead to the same result the English 100% sales tax on luxuries produced: sooner or later prices rise so as to cover both, the capital gain and the tax on it.

On Staff of Southeastern Securities Corp.

(Special to THE FINANCIAL CHRONICLE)

JACKSONVILLE, FLA. — **Conrad M. Allen** is with **Southeastern Securities Corporation,** 304 West Adams Street.

A Bonus Bond to Counteract E Bond Redemptions

(Continued from page 830)

billions in 1937-40). Now we have to squeeze out what we failed to do during the war. At the same time there is a pressing need of rebuilding the structure of our public debt.

Soviet Russia did not hesitate to levy throughout its existence a heavy sales tax which used to yield as much as as $25,000,000,000 in American currency (125,000,000,000 rubles) in the budget of 1941 (before the war against Germany). She invented also a quite ingenious system of public borrowing which resulted in the mass subscription by over 50,000,000 persons in long-term government bonds. Even during the War Russia's several war loans (1942-45) yielded 87,000,000,000 rubles and every issue was oversubscribed in a few days. The secret is in the psychological device of offering bonuses to the subscribers. At the beginning of the War, in January 1942, I submited a similar plan of a Bonus Bonds loan to the Secretary of the Treasury, Mr. Morgenthau, but it found no response.

Now we have to undo the mistakes of our War fiscal policy: we must absorb the savings accumulations of the broad masses and even to reconvert the War Bonds Series E, with their cash feature, into regular long-term bonds. Only the device of a Bonus Bond loan will entice the population and at the same time mean the cheapest kind of a mass loan for the Treasury possible under the circumstances.

A lottery pure and simple, as was proposed on several occasions in Congress recently, will neither yield sufficient money, nor be a fair operation since, as already Adam Smith observed, "the world never saw and will never see a fair lottery."

Let us therefore try the system of a Bonus Bond loan. The plan proposed below is entirely my own composition although the general idea of it is influenced by the Soviet practice. As a new experiment let us begin with a comparatively small issue of $1,000,000,000. In case of success it may be and should be repeated. If there is not sufficient response the experiment will be limited to the paltry sum of one billion dollars and do no harm. No special bond drives will be necessary and the whole operation may be effected through the post offices although the banks will certainly be willing to cooperate.

Under this plan $10,000,000 of bonds of $100 value, at par, will be issued on a 20-year maturity basis; the $100 series bonds may be divided into parts of five shares with the respective 1/5 participation. Every three months a public drawing is held, or a total of eighty drawings in twenty years. Thus, every three months a designated number of these bonds would be retired at a call price of at least $120, but a certain number of bonds drawn will be entitled to receive a bonus ranging from $200 to $50,000. In the course of 20 years 100 bonds will be retired for a bonus of $50,000; 200 bonds for a bonus of $20,000; 300 bonds for a bonus of $10,000; 400 bonds for a bonus of $2,500; 2,000 bonds for a bonus of $1,000; 10,000 bonds for a bonus of $200 or double the purchase price of the bond. All the rest of the bonds will be redeemed for at least $120 or with a premium of $20. Nobody ever "loses" and all are repaid with a bonus.

THIS IS NOT A LOTTERY since on ALL bonds the principal will be repaid and in addition a premium of at least $20 will be given to ALL bondholders. Some will receive a very substantial bonus, however, and this extra compensation, or bonus, is made possible simply by splitting the interest among all bondholders. The possibility of "winning" a high bonus will be the chief attraction, and millions will subscribe.

The table which follows shows the timing of the drawings and the number of bonuses paid at each drawing. Thus, for instance, even three months after the subscription you may get a bonus ranging from $50,000 down to $20, according to the results of the drawing. As soon as a bond is repaid with the bonus, it is cancelled and barred from further participation. Of course, all bonuses must be free from the income tax, be freely transferable, acceptable as collateral, but not redeemable before being drawn. The Federal Reserve will keep the whole (undivided) bonds free of charge and inform the bondholders in case of drawing. Although at first glance, this plan seems to be expensive to the Treasury, in reality it will cost only about 1.16% compound interest in 20 years, whereas the present Series E War Bonds cost about 2.9%.

It was certainly a psychological mistake to assume that the very high ultimate 2.9% interest rate of the War Bonds would substantially attract the man with small means: for anyone who may save only some $100 or $200 a year no great difference is derived from an investment at one or two per cent and he will find more attractive the investment in postal savings or life insurance.* It was the extraordinary drive, the patriotic feeling and the ultimately most dangerous feature of cash redemption that spurred subscription of most of the small investors, and not the high rate of interest at maturity. Therefore now the temptation to cash the bonds before maturity is exceptionally great for the "small man" and we must apply exceptional measures in the form of the proposed bonuses in order to keep the investment for a longer time. An overwhelming majority of American families will subscribe to the Bonus Bonds, and they will become a favorite means of presenting gifts on various family occasions.

The diverting of money from the lower income groups into subscriptions to Bonus Bonds will have have the further benefit of curtailing anti-social gambling. Special arrangements should be made by which the present holders of Series E War Bonds could more advantageously exchange them for the Bonus Bonds than by cashing before maturity. Those for whom the subscription to War Bonds was a premeditated durable investment will keep them to maturity and I hope that these will be the great majority. But those who bought them simply in the zeal of cooperation and have little sense of regular investment should be enticed into the Bonus Bonds scheme.

The Plan is worth while trying.

A PLAN OF U. S. POPULAR BONUS BONDS LOAN—$1,000,000, 000 WITH ALL BONDS RECEIVING A BONUS WITHIN 20 YEARS

Number of Bonuses Drawn at Each Drawing (Each Quarter) for a $100 Bond

	$50,000	$20,000	$10,000	$2,500	$1,000	$500	$200	$120	(A)	(B)
In each of the first 40 quarterly drawings (first 10 years)	1	2	3	4	20	100	1,000	9,870	11,000	$63,376,000
In each of the following 12 quarterly drawings (following 3 years)	1	2	3	4	20	100	1,000	29,870	31,000	47,812,800
In each of the following 8 quarterly drawings (following 2 years)	1	2	3	4	20	100	1,000	30,870	32,000	32,835,200
In the 61st quarterly drawing	1	2	3	4	20	100	1,000	69,870	71,000	8,784,400
In the 62nd quarterly drawing	1	2	3	4	20	100	1,000	79,870	81,000	9,984,400
In the 63rd quarterly drawing	1	2	3	4	20	100	1,000	109,870	111,000	13,584,400
In each of the following 11 quarterly drawings (64th-74th)	2	4	6	8	40	200	2,000	199,740	202,000	272,456,800
In each of the following 3 quarterly drawings (75th-77th)	2	4	6	8	40	200	2,000	200,740	203,000	74,666,400
In the 78th quarterly drawing	3	6	9	12	60	300	3,000	1,000,610	1,004,000	121,273,200
In the 79th quarterly drawing	3	6	9	12	60	300	3,000	2,000,610	2,004,000	241,273,200
In the 80th (last) quarterly drawing (in the 20th year)	3	6	9	12	60	300	3,000	2,826,610	2,830,000	340,393,200
Total number of bonuses of each category in 20 years	100	200	300	400	2,000	10,000	100,000	9,887,000	10,000,000	$1,226,440,000

All bonds receive a bonus. As soon as a bond draws a bonus, it is automatically cancelled. The drawings are held every quarter of the year for 20 years.

(A) Total number of bonuses at each drawing. (B) Total amount of bonuses paid in the respective period.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

Reactionary phase should stop within 2 points or so if recurrence of up trend is to be maintained. Rail performance highly suspicious.

Inflation is the big conversation piece. You can read columns upon columns explaining what this inflation is and how it will affect you and your pocketbook. Among the arguments, or theories about inflation that apply to the market is the one that points a warning finger at sellers of stocks. It tells them that inflation pressure is so great that any reaction would bring out so many new buyers that no reaction worth the name is possible.

* * *

Another theory for holding to long positions is that even if one sold the cash would be practically useless. There is nothing around you can use the money for.

As bits of abstract philosophy these arguments sound plausible. The trouble is that plausibility and stock markets have little in common. One of the reasons has to do with emotions and the other, a more practical one, an appraisal of the future.

I think I'll leave the latter reason alone. I can't foretell the future any better than you can. But I think I know something about market emotions and what makes them click.

* * *

The main reason why people buy stocks isn't inflation. The word inflation is a handy excuse. The motivating factor is profits. Show a man a chance to make some money in buying a stock and he'll buy. Sometimes he may need some urging. In times like these the urging comes from around him. If he sits in the customer's room he hears that people around him are making money. That he's in the customer's room shows he's ready to buy. It is what to buy that bothers him, and obliging customer's men, or garrulous neighbors will gladly help him out.

If he doesn't spend his time in the broker's office he can still hear plenty about the market and the fortunes that are daily being made there. His brother-in-law, his cousin, the man next door, the barber and the bootblack are all making it hand over fist. It takes a strong man to resist all this easy money. The fact is that money is being made in the market, so it seems doubly hard to hold back.

But the crowds who are in now are as stable as soap bubbles in a breeze. They now have firm convictions that they won't sell because (1) they don't have to; they own them outright, and (2) all reactions will be minor ones, so selling in the hope of getting them back cheaper is silly.

* * *

In the past few days we have seen a sell-off. My guess is that if this sell-off increases there will be a lot of minds changed. The man who saw a ten point paper profit isn't going to feel so confident if he sees it whittled down to just two points; or maybe a loss. Wild-eyed talk about inflation will not satisfy him; not when he's got losses. Nothing dampens bullish spirits so quickly as a reaction.

* * *

Last week's column called attention to the gap in the industrials between 199 and 202, the averages were then about 208. Since then they have slumped back about 200. So far the dip is normal, so long as it doesn't go more than a point or so under 198. If it does then the next point of resistance will be 194. The rails which also had a small gap between 66 and 67 closed it Saturday. Their action since then, however, has been bad. From the action of the general market it doesn't look like the reaction will carry much further from here. Fact is that now it looks like another upswing—and I'm not referring to news. If upswing doesn't come short of 198, look out for trouble.

* * *

You are still long on three stocks. These are Baldwin at 34; stop 33. Flintkote at 35½, stop 35 and Waukesha at 32½, stop 29. In the reaction of the past few days all three stocks have sold off. But so far they have held up comparatively better than the rest of the market. I see no useful purpose in selling them here. I would prefer to see either a sharp reaction through the 198 figure mentioned above, or a rally through the recent highs, before any positive action is recommended. Pending that the advice is: hold tight.

* * *

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.]

5-Cent Roosevelt Stamp Now on Sale

Postmaster Albert Goldman announced recently that advices had been received from Postmaster General Robert E. Hannegan that the 5-cent denomination of the Roosevelt Memorial Series of postage stamps, the last of four issued honoring the late President, Franklin Delano Roosevelt, would be placed on first-day sale at Washington, on Jan. 30, the 64th anniversary of his birth. The advices also said: The stamp will be of the special delivery size, arranged horizontally. It will be printed by the rotary process in blue, electric-eye perforated, and issued in sheets of 50. Across the top in dark face Roman lettering is the wording, "United States Postage."

The Obligation of the Republican Party

(Continued from page 834)

where to distort, to bore within, words and terms. That pollution has gone on apace in the United States until many Americans think that a Conservative is a Reactionary; that a Liberal is a left-winger equipped with mixed European ideologies; and that a Progressive is a nut.

The Republican Party need not waste time disputing over terms. It needs to assert its own philosophy and its own principles under the term American and resolutely defend them.

What is that philosophy? It, of course, includes fidelity to the concepts underlying the Declaration of Independence and the Constitution with its bill of unalienable rights. But since these fundamental liberties were established two things have happened which require new concepts of freedom and new protections to freedom. The first is the Industrial Revolution. The second is our gigantic growth in area and population.

The Industrial Revolution, despite its fabulous gains in living standards, threatened us with a host of new dangers to free men. The imagination of free men had stretched new invention across a continent; we had big business. Some big business undertook extra-curricular activities in special privilege and vicious interference in the politics of free government. That was a new tyranny over free men. That battle for free men from outmoded *laissez-faire* was first fought out in the anti-trust acts and the public regulation of utilities and corporations.

CIO Unions

Today we see a gigantic growth of labor unions paralleling big business. And out of the extra-curricular activities of some CIO unions under radical leaders, we have another form of special privilege and vicious interference in the politics of free government. That is again tyranny. Free men cannot permit economic tyranny, whether by capital or labor, any more than they can tolerate political tyranny.

Therefore, the concept of freedom must include government regulation of economic life. But if men are to remain free, then government must not dictate or operate economic life any more than it may dictate or operate spiritual life. It must remain umpire and mediator.

And this gigantic growth in area and poulation projects a thousand problems in government, economics, public works, health and education. Moreover, being born of the religious faith, our philosophy insists that men are their brothers' keepers they must care for the aged, the ill and the destitute.

But if we are to maintain free men in this gigantic population and solve these problems, our philosophy must fully embrace the concept that man can accomplish more by cooperation outside the government than by coercion from the government. It is this cooperation among free men aligned to public interest that releases the energies of the people for creative achievement and abundant production. The tens of thousands of community committees, local governments, labor unions, commercial associations, farm organizations and our host of other free institutions can do a million services in the public interest every year which Statism will wither on the vine.

There are fields where cooperation can be properly aided by government, but government swollen with power and laden with burdens becomes something above and apart from the governed. It becomes the enemy of the governed increasing its prerogatives with fanatical zeal.

To delineate the appropriate boundaries of the Government which preserve such a philosophy and principles is the task of the statesmanship for which his country is waiting.

One test of Government is — does it provide a climate which stimulates the proper initiative of men? Does it strengthen the moral rectitude of the people? Does it stiffen their self-reliance? Does it create a climate in which righteous cooperation can thrive? With such tests the right and constructive answers to our problems will be found.

But by Statism it strangles them with uncertainties, fears and intellectual dishonesties which undermine their morals, their self-reliance, their confidence, their judgments, their energies and their cooperation.

Such a philosophy and such tests would mean a huge housecleaning of Statism from our Government.

We are told we must have a constructive program. What more constructive program is there in the world today than that of free men? From free men comes a dynamic not a static philosophy of life. Free men generate new ideas, new inventions. From them comes change, reform and progress. But there can be no change in the principles of free men or there will be no progress.

A society built on these foundations and undefiled by special interest can command by moral force the confidence of all. It is only a nation rooted in this philosophy that can be a sanctuary for the oppressed, the protector of the exploited, the calm tribunal before which men may articulate their differences and perfect their agreements. Reaction is foreign to it, for its motive and inspiration are to explore the illimitable means by which men can enrich the civilization to which they belong. It is liberalism in the true meaning of expanding freedom of men. It is conservatism in that it would conserve the freedoms we have won.

The Republican Party owes it to the American people to give them the opportunity to express themselves flatly on this issue as they did against slavery in 1860 under Mr. Lincoln. I have no fear that they would not declare for free men rather than for the worldwide reaction today toward economic serfdom.

The dangers to freedom do not lie wholly in our domestic life, they lie also in our attitudes toward freedom in the world today. Freedom has shrunk in the world as a result of our own policies born of our own drift toward Statism. Here in America alone remains the chance to preserve the concepts and practices of free men.

Great as are the confusions and difficulties of the day, they can be overcome. The history of civilization shows that in many a crisis and time of confusion some men and women stood solid against error, firm for their principles and beliefs. They may not have known all the solutions or all the answers, yet if they stood firm until the furies had passed, they won. And to them rallied the spiritual forces which lie deep in the human experience and the human heart. It was such steadfast American men and women who carried the torch of free men through the confusions of the Revolutionary War. Again such groups stood firm and brought freedom through the confusions of war in Lincoln's time.

Have we any less faith?

Municipal News and Notes

With the fully taxable corporate obligations selling at record low yields, and all types of Treasury securities establishing new highs almost daily, it is hardly necessary to search for the reasons underlying the present bull market in the tax-exempt municipals. The performance of these other markets merely serves to emphasize that both dealers and investors are reconciled to the fact that an end to the era of easy money conditions is far from imminent.

Indeed, the indications are that the Treasury fiscal experts are committed to an extension of past policy of low interest rates, rather than to a reversal of the trend.

This is evidenced in the growing belief that the monetary authorities are wedded to the theory that the best interests of the government dictate that the extensive refunding operations now impending be effected almost exclusively on a temporary basis.

This, of course, eschews the possibility of any material volume of relatively high coupon long-term obligations, thereby giving comparable outstanding instruments a "scarcity" value of considerable dimensions. The effect of this development is daily evident in the increasingly higher prices for the small supply, as measured by the demand, for Treasury bonds.

In these circumstances, the possibility (or hope) that at one time was entertained among some investors, of an impending halt to the mounting level of municipal bond prices has been largely discarded. In addition, there is the realization that the volume of local government securities will necessarily continue in short supply for a much longer period than had been expected.

With strikes in major industries tending to further limit the already small supply of basic materials, the chances are that a large part of the post-war improvement programs of local governments will remain in the blue-print stage for an indefinite period. Necessarily, this will act as a deterrent to the incidental financing, although there will probably be some offerings made in anticipation of future monetary needs.

However, this will not materially alleviate the shortage of investments in relation to the expanding demand, a consideration that is being currently reflected in the mounting price structure.

The latest blow, incidentally, to the prospects of an early implementation of the new projects and improvements long envisaged by municipal officials was contained in the large-scale dwelling program developed by Housing Expediter Wilson W. Wyatt and fully endorsed by President Truman. The program contemplates the establishment of a high priority on materials needed for its completion, with the result that supplies for other construction purposes, both private and municipal, may be severely limited.

Implicit in the housing scheme, however, is the possibility of a resumption of long-term financing by local housing authorities, whose obligations are now highly regarded from an investment standpoint.

Indicative of the tenor and course of the municipal bond field was the reaction of market to the recent offering of the $15,000,000 Maine Turnpike Authority 2½% revenue bonds. These obligations, maturing in 1976, were underwritten by an extensive syndicate managed jointly by Stifel, Nicolaus & Co., and Tripp & Co., and offered to investors at a price of 99.50. The market, however, speedily placed a much greater evaluation on the bonds, with the result that they are currently quoted at 102.102¼.

Rejoins Stifel, Nicolaus

(Special to The Financial Chronicle)

ST. LOUIS, MO.—**John W. Bunn** is now with **Stifel, Nicolaus & Company, Inc.**, 314 North Broadway, after serving in the armed forces.

With Walston, Hoffman

(Special to The Financial Chronicle)

SAN FRANCISCO, CALIF.—**John J. Gillespie** and **Philip D. Piltz** have been added to the staff of **Walston, Hoffman & Goodwin**, 265 Montgomery Street. Mr. Gillespie was previously with Dean Witter & Co.

Business and Politics

(Continued from page 835)

You will remember his famous slogan, "Equal rights for all, special privilege for none." During the past 12 years the greatest injury to our industrial system has been brought about by a new use of the Taxing Power. Instead of taxing our people for revenue only, we have seen the revenue department used as an active instrument of social reform.

Who Pays the Taxes?

We have been taught to believe that the burdens of taxation are to be borne only by the rich. It has become popular in the politician's belief, to levy high taxes upon the corporations—and here is the greatest crime against every man, woman and child in the United States.

It is a fallacy to say that corporations "pay" taxes—they do not—they collect taxes from the people and transmit them to the Government. The ultimate consumer pays the corporation tax in the price of every manufactured article he buys.

For instance, in the price of your new automobile—when, as, and if you can buy a new automobile—there will be included the cost of labor, materials, overhead, and, last but not least, taxes, and the same thing holds true for every other purchase made by 135 million consumers in this country. The higher taxes go, the higher will go prices, and the lower our standard of living will go. Thus, to drain off into the hands of government through excessive taxation any arbitrarily set portion of earnings, is to weaken industry and make it incapable of performing its true function of creating more and more jobs in an ever-expanding economy!

Political Advertising

There are many convincing demonstrations of the power of advertising when it is applied as an economic or social force. The facts seem to be exactly the reverse when advertising is employed in the political sphere. When it comes to selling the American people on the benefits and virtues of our free enterprise system, we must admit that the results have been somewhat disappointing. Many attempts have been made by the best advertising brains in the country, during the past decade, to write persuasive "copy" on this theme. By and large, these efforts have not measured up to expectations. The public has remained highly skeptical even when great business and trade associations have sought to win popular followings for slogans like "What's good for business is good for you!"

Why was it that in this, the most vital of all assignments, business did not succeed? Was it that the problem had been only superficially studied or that causes of popular economic discontent had not been properly analyzed? There was—and there still is—a strong case to be made for the business point of view—to be made, if you please, for sane and experienced guidance of our national affairs as against irresponsible promises by demagogues seeking to capitalize on popular dissatisfactions.

Business Leadership Defective

But against the "smear" campaigns waged by the radicals—who falsely call themselves liberals and progressives—business leadership has been ineffective; too frequently it has either abdicated or sought to play a game of appeasement with its critics. Our business leaders, remembering what happened to their predecessors after the economic collapse of 1929, are often too timid or so lacking in faith in their own "case" that they fail to convince the American public either of their own sincerity or their own ability to lead.

Nowhere has this practice of appeasement been carried to a greater point than in the use of radio. Here again the advertising fraternity must carry a high degree of responsibility. Too often, in this very critical period through which the nation is passing, principles have been suborned for an easy opportunism. One has only to listen to many of these so-called "Commentators" over the air to perceive where they take their stand on these vital issues. Most of these artful molders of public opinion are frankly contemptuous and condescending toward the businessmen who provide their pay checks. For everyone of those who conscientiously believes in free enterprise I will name you a dozen who are deliberately distorting the facts for their own personal gain—and abusing the right of free speech. You know their names as well as I do—all busily engaged in tearing down the business system which gives them their jobs. Too many businessmen, whenever we get together, are "viewing with alarm" while, at the same time, our advertising agencies or our own advertising executives are aiding and abetting these detractors of American business!

There are many who throw up their hands, despondent and discouraged, and say that business must go **with**, and not try to **oppose**, this rising tide. They do not think that any kind of advertising approach will solve the problem. They think that America is caught in a world-wide drift toward socialism—toward totalitarianism—which it is foolish to oppose. More and more, lip service is being given to the "Common man" who is now seen as coming into his own. This John Q. Public is to become the ward of a great, all-powerful Welfare State which will undertake to guarantee him a job as well as his future economic security. Those rights of the individual, which our ancestors fought for so bitterly during the 18th and 19th centuries, are today suspect and under attack by the very men who call themselves liberals. In every country the trend is toward the aggrandizement of government and giving the bureaucrat unlimited power.

Two Distinct Political Philosophies

The issue is joined between two distinct political philosophies—this new worship of absolutism—call it communism, socialism, or what you will—and that simple, old-fashioned Jeffersonian type of democracy under which I grew up and in which millions of Americans still believe.

One group would place the management of the national economy in the hands of bureaucrats rather than in the hands of skilled technicians. One would "nationalize" industry and finance and seek to divide rather than create new wealth. The choice is between men who **talk** and the men who **act**.

Do not misunderstand me; I believe that the politician has a very important role to play in American life. Our job is to keep him in his rightful place—not to permit him to become intoxicated with his new-found power and start messing around in economic affairs which he will never, never understand!

We ought to look carefully at the blueprints for this totalitarian state which is now being prepared for America. These plans date back to before the war; they were greatly accelerated by that conflict, and right now they are being pushed ahead for early application in the postwar period. Don't be lulled into believing that Mr. Truman has "fired" all Mr. Roosevelt's radical advisers or that the country once more is turning conservative. Our radical friends are biding their time. They expect to triumph with the arrival of the first sizable postwar depression.

I do not believe a postwar depression is necessary. This economic collapse—so these prophets say—will be so far-reaching and so much more severe than the depression of the '30s that the American public will welcome the advent of a new Socialist Welfare State. Some well-informed people even go so far as to assert that the present wave of CIO strikes has been deliberately designed to bring about a postwar depression. Plans for the rebuilding of America into new economic patterns will be found in much of the CIO literature that has been published. Many of these proposals are incorporated in bills that are now pending before Congress.

Objectives of CIO

The CIO has two objectives which are clearly defined. It seeks, first, through industry-wide strikes, particularly in the fields of transportation and communication, to accustom CIO unions to the use of **mass power**, and, second, through employing pressure politics at the capital, to teach forcibly that members of Congress are dependent upon the voting strength of labor, its political allies, and its friends.

Here is a list of seven bills, six of which the CIO-PAC groups are demanding that the Congress pass or face the consequences. Note also that practically every one of these bills is being actively supported by the Administration. You may draw your own conclusions as to whether this is merely a coincidence or reflects some deeper alliance. In every one of these bills there is a worthy objective and it is stated in language with which no one can disagree.

I quote from a CIO pamphlet which lists these bills, together with the CIO explanation for them.

(1) Unemployment compensation of $25 (maximum) per week up to 26 weeks (Kilgore-Forand Bill, S. 1274, H. R. 3891).

Note what the CIO says:

"President Truman's program for Federal funds to supplement state unemployment compensation constitutes an emergency measure to bring benefits up to the level long recommended by the Social Security Board. Opposition to it has been based on a fear that it will make workers unwilling to accept jobs at less than $25 a week. This open intention to cut wages to substandard levels is a drastic attack on the American standard of living."

(2) Full Employment Bill (Murray-Patman Bill, S. 380, H. R. 2202).

The CIO says:

"The **right to a good job** was a key plank in the Roosevelt platform. To establish that right is a mandate of the people through the overwhelming victory Roosevelt won in 1944. The Murray-Patman bill makes this right a government policy. There is no question of taking the initiative away from private industry. There is simply a method of **planning ahead** to meet, by means of **worthy** public works, the gaps which the past three decades have shown private industry alone cannot prevent."

(3) 65c Minimum Wage (Pepper-Thomas Bill, S. 1349, H. R. 3914).

The CIO says:

"This measure, raising minimum legal wages to 65c per hour immediately, and 70c and 75c after a year and two years respectively, is the indispensable floor under purchasing power and living standards. It is necessary for the protection of millions of workers from misery and malnutrition, and also for the prosperity of business and agriculture whose products these workers should buy."

(4) Permanent Fair Employment Practices Committee (S. 101, H. R. 2232).

The CIO says:

"As manpower shortage is replaced by growing unemployment, many employers are reverting to racist personnel practices which are one of the earmarks of fascism. Organized labor cannot tolerate the reestablishment of a group of low-wage workers who can be used to pull down all labor standards. Non-discrimination in employment must be made a permanent government responsibility. Congressmen must sign discharge petition to have opportunity to vote on this legislation."

(5) Abolition of poll tax for voting in Federal elections (H. R. 7) (has passed House).

The CIO says:

"Two Congresses have failed to guarantee American citizens their elementary democratic rights, without the full Senate ever having a chance to vote on the issue. Poll tax politics and poll tax Congressmen are a stumbling block to every bill in the people's interest. Senators this year must refuse to tolerate diversion, delay and filibuster which frustrate the will of the majority of the Senate."

(6) Generous treatment of returning veterans.

The CIO says:

"The niggardly benefits so far provided by Congress for Veterans of this war do not reflect the sentiments of the nation. The Rankin amendments (H. R. 3749) to the "GI Bill of Rights" are only trivial improvements. The law must be amended to provide $25 per week unemployment compensation, with $5 additional for veterans with dependents; to liberalize loan provisions; and to liberalize several other provisions. We also support a generous 'bonus' or adjusted service compensation.

"We condemn all attempts to divert the veterans from their real rights by playing them off against the labor movement and using them to undermine collective bargaining, wages and working standards."

(7) Ball-Burton-Hatch Bill (S. 1171).

The CIO says:

"Passage of this bill would destroy the National Labor Relations Act and the democratic principles of free collective bargaining. It would enable reactionary employers to tie workers' organizations up in endless litigation and paralyze their efforts for better wages and working conditions."

Now these measures, all except the last one, President Truman is actively supporting. They fall within the power-politics program of the militant CIO-PAC organization headed up by Sidney Hillman. They constitute some of the basic issues of the 1946-1948 campaign, for which the preliminary skirmishes are now under way. The nation has thus been put on notice as to the economic objectives which are being pursued by these radical groups. That these objectives go far beyond the ordinary "demands" of labor in collective bargaining procedures has likewise been admitted by one of the CIO's most influential leaders, Walter Reuther, who leads the strike against General Motors.

Referring to that conflict and its significance, Reuther declared:

"This issue is bigger than an ordinary wage argument—bigger than the corporation—bigger than the union. The current issue . . . transcends the narrow economic interest of labor and management and . . . gets to the very heart of the basic economic problem facing this nation."

Revolutionary Intent Behind Strikes

That statement, I submit, confesses the **revolutionary intent** behind the nation-wide strikes which now paralyze the country's industries, retard employment of returning veterans and seriously threaten the entire 1946 reconversion program. That free enterprise is now battling for its very life was also made definitely clear by another socialist leader speaking at about the same time that Mr. Reuther spoke. This new declaration came from the head of the British Labor Party, Harold Laski, on a recent visit to the United States when he spoke with Sidney Hillman and others in New York City.

Said Mr. Laski:

"There is no middle way. Free enterprise and the market economy mean war; socialism and planned economy mean peace . . . It is significant that only in the new world of Russia has the businessman ceased to count. The day of the middle class is over. Their thought is bankrupt, their ethical values are obsolete, their dogmas an angry anachronism. A new social philosophy is necessary for a new world. Let us admit that it can be born only of a new social order."

Take the legislative program of the CIO and these various statements; what do they add up to?

Is there any doubt of the direction in which they point?

They express the same contempt for the business classes, for the capitalistic system, that has led to the "Nationalization" of industry not only in England but in virtually every liberated country in Europe.

The Challenge Must Be Met

Here is a direct challenge that can be evaded no longer. It must be met—not by appeasement—not by reliance upon legal defense mechanisms, but by courageous resistance to the further aggrandizement of the power of Big Government—to the power of pressure groups operating from within the very framework of government itself! Those who believe in America and American institutions must make a decisive choice; there can be no further retreat or surrender of principles that are fundamental to the preservation of our form of government and the rights and liberties of the individual citizen! That choice must be made **now** because I agree at least this much with these radical groups: it's later, much later, than you think!

The first problem that requires decisive action is to correct at once an increasingly serious defect in our political machinery. This means that like-minded men must join hands and make common cause against the subversive influences now at work in America. Just as the effort is now being made, under the auspices of the CIO-PAC groups, to organize all minority and dissident factions into one dominant self-interest bloc, so the time has come when imaginary differences between forthright, progressive Republicans and forthright, progressive Democrats should be resolved in a common cause.

Only thus can we remedy the existing weakness within the two major political parties—a weakness which the pressure groups have so skillfully exploited!

If a Political Action Committee for the Left is justified to strongarm Congress into accepting a program like that of the CIO, then a Political Action Committee for the Right, which will actively oppose force with force, is no less justifiable.

Let's utilize the pattern adopted by Mr. Hillman's followers and **organize every village**, and every city to counter these threats to true representative and democratic government. In this way I

Our International Policies

(Continued from page 834)

sions on matters of the gravest import to the American people.

This is not the occasion to embark on a detailed discussion of the terms of the proposed British financing agreement.

But I hope whatever the debate over those details—that the Congress and the American people will not lose sight of the fundamental question of national policy involved.

Issue a Political One

I believe the issue is primarily a political one.

If the Congress bogs down in discusing only what we are getting and what they are getting, it will be in danger of passing up one of the most important benefits to be derived from the debate—namely the broader aspects of American foreign policy.

The great thing is that what we do shall be based on a consistent policy which the American people will support because they understand and approve it.

The mismanagement of our international relations has brought us to the place where it is vitally essential to America to keep the British Empire a going concern—strong in a world concord of nations.

Not to keep Great Britain strong would be to abandon the continent of Europe to Russia. If that happens, the weight of Russia falls across Asia as well as Europe.

Appeasing Russia

Now let me say right here that I am not as much afraid of Russia or of Russia's purposes as a good many are.

We are dealing there with a strong people who have long been repressed in many directions by the outside world, and who now, feeling themselves strong, are asserting themselves in unreasonable ways.

I think we should be patient and fair with Russia—but firm. Much more firm than we have been, in standing for those principles and those international ideologies which—as far as we are concerned—were definitely involved in both world wars. It is obvious as negotiations go on, adjustments must be made. Adjustments on details, but not principles.

By patience and fairness I do not mean appeasement. The people of the United States should be fully aware of the dangers of "appeasement." Yet, aside from Germany, our foreign policy has been one of conceding today what we refused yesterday.

Our foreign policy at Moscow was different from our foreign policy at Yalta, at the Council of Ministers in London or at San Francisco.

At Moscow we conceded to Russia's demands that the Big Three write the peace—that she be permitted to dictate the peace and re-draw the map of Eastern Europe and the Balkans.

earnestly believe that we can get our country back into the middle of the road—away from extremists, of the left, or reactionaries of the right.

Let's create a new political consciousness among the American people that will overcome their complacency and inertia and unite them into a militant citizenry against "un-American, political "goon squads" now attempting to regiment our national life! The gulf between these two political philosophies—one that upholds American principles and American traditions, and one intent on building up a totalitarian police state—that gulf is increasingly wide and unbridgeable.

We can maintain free government only as we—each and every individual—are prepared to rally to its defense.

On Oct. 31 Secretary Byrnes said:

"We cannot recognize regional arrangements as a substitute for a world-system. To do so would not promote the common and paramount interests of all nations, large and small, in world peace."

That statement is completely in accord with the UNO setup. It is in line with what Byrnes tried to do last September at the Council of Ministers in London. But at Moscow he walked out on the UNO charter and the obligations we made at San Francisco.

The Argentine Policy

Just ten days ago there came another shocking example of this administration retreat from the San Francisco charter and Secretary Byrnes' Oct. 31 position.

At the very moment Secretary Byrnes was participating in organization of the UNO, the Assistant Secretary of State, in New York, in thinly veiled language urged punitive action against Argentina, regardless of Article 33 of the UNO.

To quote the very informing and farsighted Washington news letter, "Human Events":

"Without mentioning Argentina by name, but unmistakably defining that nation as his target, Mr. Braden said . . . "there is nothing in the book of diplomatic etiquette that requires us to embrace the enemies of our way of life." Pulling no punches, he then made pointed rferences to the "typically fascist" government in this hemisphere; compared its alleged threat to peace with that of Nazi Germany; and argued that the Good Neighbor policy must not be construed as meaning tolerance for an American republic which is governed by such a dictatorship."

"Apparently Mr. Braden did not realize, in making this speech, that he was attacking a government which is a fellow member of the United Nations. His official denunciations, as made public by the Department of State, come perilously close to violating the first paragraph of Article 33 of the San Francisco Charter, which reads:

"The parties to any dispute, the continuance of which is likely to endanger the maintenance of international peace and security, shall, first of all, seek a solution by negotiation, enquiry, mediation, conciliation, arbitration, judicial settlement, resort to regional agencies or arrangements, or other peaceful means of their own choice."

* * *

"Now, regardless of our obligations under the Charter, we are officially threatening a fellow member of the United Nations with punitive action."

Why, if that is our fundamental policy towards Argentina, did we use all our strength and influence, to get her into the UNO at San Francisco?

We were either wrong then—or wrong now.

Weakening Confidence Abroad

It is simply another illustration of the complete inconsistency and expediency that is lowering American prestige and influence throughout the world.

The consequences of our actions at Moscow, our policies in the Pacific, and Assistant Secretary of State Braden's New York speech, are to weaken world confidence in our whole-hearted support of the principles of collective security as stated in the UNO charter.

People are wondering whether this administration is completely ignorant in the concrete application of these principles and are confusing internationalism with imperialism—or whether the national administration actions are not inconsistent but a definite policy of building an alternative to the UNO.

In any event, at the critical moment of the birth of the UNO, our policies are bound to create doubts as to our confidence in its workability and as to our sincerity in abiding by its terms.

Again, we reversed ourselves when we accepted at Moscow a control council for Japan, and the idea of an Asiatic commission. The worst of it is the Moscow agreement was so loosely drawn that Secretary Byrnes barely reached home before the argument started over what was actually the intent of the Big Three. It is already being differently interpreted in different countries. Thus, it already is another source of mistrust and suspicion that is the curse of the world. President Truman also must have been conversant with and a party to this appeasement policy.

In any event, no one can deny that our government on all these points has made a long retreat from its previously announced position. If we were right before, we are wrong now. No one can claim the Moscow agreement is a democratic approach to peace settlements.

To quote Phillip Simms, "To a vast majority of the United Nations the outstanding tragedy of the Big Three meeting at Moscow was the Anglo-American surrender to the Soviet thesis that world rule belongs to the great."

* * *

"Even France—not to mention Norway, Denmark, Holland, Belgium, Czechoslovakia and others—was banished from the European peace table. Yet, from the point of view of the United States, Britain and free peoples everywhere, it is highly important that France be restored to her rightful place."

* * *

"That world rule belongs only to the great was the foundation of Nazism and Fascism. It was against this conception that the United States entered the conflict against the Axis in 1940, more than a year before our shooting war began at Pearl Harbor. It was to abolish this ideology that the people of America went into debt for $250 billion and sent hundreds of thousands of their sons to die on battlefields all over the world. World rule by a few means carrying Nazi-Fascist-Communist totalitarianism from the national to the international level. Within the Kremlin, a few men decide who shall rule the Soviet Union and how. The 190,000,000 people of that vast country have no voice whatsoever in the proceedings. Once in a while they are allowed to put their cross on the one-party ticket which the dictatorship has arranged for them."

* * *

"According to the Molotov-Byrnes-Bevin formula, the new world order is to be conducted in much the same way. First, in effect, the Big Three will dictate the peace and allow the smaller powers to give it their okay. Then by means of their veto the Big Three will be able to control the UNO."

* * *

"World peace based on any such arrangement, declares Australia's Foreign Minister, Dr. Herbert V. Evatt, will not work. The attempt to make it work, he says in the January number of Foreign Affairs is largely responsible for the present world-wide pessimism and disillusionment."

Weakening Confidence at Home

We see the same undemocratic procedure slowly gaining ground at home. The agreements made at Casablanca—at Teheran—at Yalta—at Potsdam—at Moscow—all have the effects of treaties. None of them were ever submitted to the United States Senate. Exemption was claimed by the President because of their temporary character and military necessity. Their character proved to be permanent instead of temporary. Military necessity no longer exists. My point is that these executive agreements, dealing as they do virtually with the division of the world, and made with more or less snap judgments are perilous. The danger is that they deprive the Senate and the American people from considered decisions on foreign policies according to our constitution.

We haven't been very realistic in our foreign policies. We have allowed the "hallelujah" aspect on the one hand and the forces of hate and revenge on the other to dominate our foreign policies. We have built a roof without laying the foundation that is prerequisite of world peace—world organization or no world organization.

The world, mystified by America's inconsistent foreign policy and fearing we are drifting away from the UNO, and never being very confident of its success, is threatening to divide once again into spheres of influence and power blocs that have always meant trouble and grief for mankind.

Must Work for World Equilibrium

Therefore, we must attempt to work out a stable world equilibrium. In order to do that, Britain's potency must be maintained one way or another.

We have got to face the facts whether we like them or not. It would be a calamity, at this state of world affairs, if the spheres of influence drop to two major powers. Therefore, we must try to keep the British Empire going. We must bring back into the

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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. 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—Merrill Lynch, Pierce, Fenner & Beane and Butcher & Sherrerd.

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. on Jan. 29 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.

Details—See issue of Feb. 7.

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.

Underwriters—Van Alstyne, Noel & Co. heads the underwriting group, with names of others to be filed by amendment.

BURRY BISCUIT CO. on Jan. 29 filed a registration statement for 100,000 shares $1.25 convertible preferred stock, par $20.

Details—See issue of Feb. 7.

Offering—The price to the public is $26.50 per share.

Underwriters—The underwriting group is headed by Van Alsyne, Noel & Co., N. Y., and Carlton M. Higbie Corp., Detroit.

YOUNG RADIATOR CO. on Jan. 29 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.

Details—See issue of Feb. 7.

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.

Underwriters—The group is headed by Van Alstyne, Noel & Co.

REGAL SHOE CO. on Jan. 29 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.

Details—See issue of Feb. 7.

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.

Underwriters—Van Alstyne, Noel & Co. and Cohu & Torrey are named principal underwriters.

UNITED STATES RADIATOR CORP. on Jan. 29 filed a registration statement for 92,344 shares of common stock, par $1.

Details—See issue of Feb. 7.

Offering—The company has granted to holders of its common stock rights to subscribe for not exceeding 92,344 shares of common at $11 per share 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.

Underwriters—White, Weld & Co. named principal underwriters.

MORRIS PLAN CORP. OF AMERICA on Jan. 29 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.

Details—See issue of Feb. 7.

Offering—The price to the public will be filed by amendment.

Underwriters—To be supplied by amendment.

LOGANSPORT DISTILLING CO., INC., on Jan. 29 filed a registration statement for 185,000 shares common stock, $1 par.

Details—See issue of Feb. 7.

Offering—The price to the public will be filed by amendment.

Underwriters—Lehman Brothers head the underwriting group.

MONDAY, FEB. 18

UNIVERSAL PICTURES CO., INC., on Jan. 30 filed a registration statement for 60,000 shares of 4¼% cumulative preferred stock, par $100.

Details—See issue of Feb. 7.

Offering—The price to the public will be filed by amendment.

Underwriters—Dillon, Read & Co., Inc. heads the underwriting group.

M. LOWENSTEIN & SONS, INC., on Jan. 30 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.

Details—See issue of Feb. 7.

Offering—The prices will be filed by amendment.

Underwriters—Eastman, Dillon & Co.

WEDNESDAY, FEB. 20

BURLINGTON MILLS CORP. on Feb. 1 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.

Details—See issue of Feb. 7.

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.

Underwriters—Kidder, Peabody & Co. head the underwriting group.

SATURDAY, FEB. 23

UNIVERSAL WINDING CO. on Feb. 4 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.

Details—See issue of Feb. 7.

Offering—The offering includes 109,400 shares of common on which the price to the public will be filed by amendment.

Underwriters—Reynolds & Co. heads the group.

STANDARD MILLING CO. on Feb. 4 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.

Details—See issue of Feb. 7.

Offering—The offering prices to the public of the debentures and common shares will be filed by amendment.

Underwriters—Stone & Webster Securities Corporation is named principal underwriter.

UNION WIRE ROPE CORP. on Feb. 4 filed a registration statement for 42,000 shares capital stock, without par value.

Details—See issue of Feb. 7.

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.

Underwriters—P. W. Brooks & Co., Inc., New York.

NATIONAL DISTILLERS PRODUCTS CORP. on Feb. 4 filed a registration statement for 379,894 shares of common stock (no par).

Details—See issue of Feb. 7.

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.

Underwriters—The group is headed by Glore, Forgan & Co. and Harriman Ripley & Co., Inc.

CITY OF MONTREAL, CANADA on Feb. 4 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.

Details—See issue of Feb. 7.

Offering—The offering price to the public will be filed by amendment.

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.

MONDAY, FEB. 25

ALLIED STORES CORP. has filed a registration statement for 257,840 shares of common stock, without par value.

Address—1440 Broadway, New York, N. Y.

Business—Holding company owning various subsidiaries which operate department stores and smaller stores classified as junior department stores or specialty shops.

Offering—The 257,840 shares of common are being offered by the company for subscription to the holders of its common stock at the rate of one share for each seven shares held at a price to be filed by amendment. The unsubscribed shares will be sold to underwriters who will offer them to the public at a price to be filed by amendment.

Proceeds—The net proceeds will be added to the general funds of the company and used for additional working capital required by increases in customers' deferred payment accounts arising from the sale of household appliances, etc., possible acquisition of additional department stores, improvements to present stores, etc.

Underwriters—Lehman Brothers, New York, heads the underwriting group.

Registration Statement No. 2-6142. Form S-1. (2-6-46).

TUESDAY, FEB. 26

RAILWAY & LIGHT SECURITIES CO. has filed a registration for 20,392 shares of 4% cumulative convertible preferred stock, par $100.

Address—49 Federal Street, Boston, Mass.

Business—Closed-end investment company.

Offering—The company is issuing to the holders of its common stock rights to 20,392 shares of convertible preferred stock on the basis of one share for each 8 shares of common held at a price to be filed by amendment.

Purpose—The 20,392 shares of convertible preferred are being issued for the purpose of refunding the outstanding 21,136 shares of 6% preferred stock, series A, which will be called for redemption at $125 per share plus accrued dividends. Under certain conditions the company will accept shares of 6% preferred stock, series A, in the ratio of four shares accompanied by 40 rights in exchange for five shares of 4% cumulative convertible preferred stock. Any stock not taken upon the exercise of rights will be sold to the public at a price to be filed by amendment.

Underwriters—To be filed by amendment.

Registration Statement No. 2-6143. Form S-4 (2-7-1946).

OKLAHOMA GAS & ELECTRIC CO. has filed a registration statement for 675,000 shares of 4% cumulative preferred stock, par $20.

Address—321 North Harvey Street, Oklahoma City, Okla.

Business—Public utility.

Offering—The company intends to call for redemption its outstanding 146,478 shares of 7% cumulative preferred stock, par $100. The old preferred is redeemable at $125 per share plus dividends. The company is granting to such holders the right to receive the redemption price of their shares of old preferred by the delivery of six shares of 4% new preferred for each share of old preferred. As the amount of new preferred will be limited to 675,000 shares, the right is limited to holders of old preferred who first deposit an aggregate of 112,500 shares (76.8%) of the old preferred. The holders of the remaining 33,978 shares (23.2%) of old preferred will be required to take the redemption price of their shares in cash. The redemption price of the 33,978 shares of old preferred is $4,247,250, exclusive of accrued dividends, and the company has made a commitment for a bank loan of $4,200,000. The plans of the company contemplate that such cash be eventually provided through the sale at competitive bidding of 140,000 additional shares of its common stock at the same time as the company's parent, Standard Gas & Electric Co., makes its contemplated sale, at competitive bidding, of all of the common stock of Oklahoma owned by it.

Purpose—To refinance preferred stock.

Dealer-Manager—The company will make an agreement with a dealer-manager to form and manage a group of security dealers to obtain acceptances of the optional right.

Registration Statement No. 2-6144. Form S-1. (2-7-1946).

WEDNESDAY, FEB. 27

CINCINNATI MILLING MACHINE CO. has filed a registration statement for 230,000 shares of common stock, par $10. Of the total 116,887 are being sold by the company to the underwriters, and 113,113 shares are being sold by certain stockholders.

Address—4701 Marburg Avenue, Cincinnati, Ohio.

Business—Machine tools and related machinery and products.

Offering—The price to the public will be filed by amendment.

Proceeds—Company will use its share of the proceeds to restore to its treasury funds expended for capital purposes during the past six months as follows: $2,115,378 for the redemption on Oct. 15, 1945, at 110 plus accrued dividends, of the 18,972 shares of 6% cumulative preferred, par $100; approximately $400,000 for machinery, equipment, etc., and balance for general corporate purposes. The net proceeds from the remaining shares will go to the selling stockholders.

Underwriters—Union Securities Corporation heads the underwriting group.

Registration Statement No. 2-6145. Form A-2. (2-8-1946).

ALABAMA POWER COMPANY has filed a registration statement for 300,000 shares of 4.20% preferred stock, par $100, cumulative from April 1, 1946.

Address—600 North 18th Street, Birmingham, Ala.

Business—Public utility.

Offering—The company proposes to issue not more than 300,000 shares of new preferred, par $100, at dividend rate of 4.20%, which will be offered in exchange to the holders of its outstanding 355,876 shares of preferred, consisting of 159,575 shares $7 dividend stock, 170,456 shares $6 and 25,845 shares $5 preferred, all without par value, on the basis of one share of new preferred and $10 in cash for each share of $7 preferred, and one share of new preferred for each share of $6 and $5 preferred exchanged, plus cash dividend adjustments. Any shares not exchanged will be redeemed at the redemption prices of $115 for the $7 and $105 for the $6 and $5 preferred. If more than 300,000 shares of old preferred are deposited for exchange, the company will allot shares up to 25 shares in full and pro rate shares deposited by a single holder in excess of 25 shares. The company also plans to sell to banks $7,600,000 notes and use the proceeds to reimburse its treasury for prepayment on Dec. 31, 1945, of $2,250,000 2⅞% notes and to provide a portion of the funds required in connection with the proposed exchange and redemption of its old preferred stock.

Dealer-Manager—The company has retained Merrill Lynch, Pierce, Fenner & Beane as dealer-manager to manage a group of securities dealers to obtain acceptances of the exchange offer.

Registration Statement No. 2-6146. Form S-1. (2-8-1946).

CHERRY-BURRELL CORP. has filed a registration statement for 40,000 shares of cumulative preferred stock, par $100. The dividend rate will be filed by amendment.

Address—427 West Randolph Street, Chicago, Ill.

Business—Processing machinery, equipment and supplies for the dairy industry.

Offering—The company is offering 13,549 of the 40,000 shares of preferred to the holders of its 13,549 shares of 5% dividend series preferred in an opportunity to exchange their shares for new preferred on a share for share basis plus a cash adjustment. The exchange offer is a step in a plan of recapitalization of the company, in pursuance of which 26,451 shares of the preferred, together with the shares not issued in exchange for old preferred, are to be sold to underwriters who will offer them to the public at a price to be filed by amendment.

Proceeds—The net proceeds from the issue of the 40,000 shares will be used for new plant construction, for acquisition of additional machinery and equipment, for exchange or for redemption of the 5% dividend series preferred and for working capital. The approximate expenditures contemplated include $1,300,000 for construction of an additional factory building at Cedar Rapids, Iowa; $500,000 for new machinery and equipment; $1,422,645 for exchange for or redemption of the 5% preferred, exclusive of accrued dividends; $300,000 for additional plant facilities at Little Falls, N. Y., and balance for working capital.

Underwriters—The Illinois Company, Chicago, heads the underwriting group.

Registration Statement No. 2-6147. Form S-1. (2-8-1946).

DALLAS YELLOW KNIFE GOLD MINES, LTD., has filed a registration statement for 300,000 shares of capital stock, par $1.

Address—356 Bay Street, Toronto, Ontario, Canada.

Business—Mining.

Offering—The 300,000 shares are offered at a price of 50 cents per share. These share are offered as a speculation.

Proceeds—The proceeds will be used to carry on exploration and development of the company's mining properties.

Underwriter—Mark Daniels, 1840 Morris Building, Philadelphia, Pa., and 371 Bay Street, is named underwriter, with commision of 30% and 5% additional allowance to cover advertising and traveling expenses.

Registration Statement No. 2-6148. Form S-11. (2-8-1946).

CHAIN STORE INVESTMENT CORP. has filed a registration statement for 15,000 shares of 4½% cumulative convertible preferred stock, par $50 and 100,000 shares of common, par 10 cents.

Address—50 Congress Street, Boston, Mass.

Business—Closed-end, non-diversified, management investment company, with reservation to change from a non-diversified to a diversified investment company.

Offering—The 15,000 shares of 4½% cumulative convertible preferred will be offered to the public by underwriters at a price to be filed by amendment. The 100,000 shares of common stock are initially being offered by the corporation for subscription by its present common stockholders at a price to be filed by amendment. The unsubscribed balance of common will be offered to the public by underwriters at a price to be filed by amendment. The common stock will be offered to present common stockholders at a price of 50 cents per share under the public offering price.

Proceeds—The net proceeds will first be applied to the redemption of the old preferred stock, which is to be called for redemption as a part of the proposed financing. This will require the sum of $230,475, representing the redemption price of $105 per share on the 2,195 shares outstanding, plus accrued dividends. The remainder of the proceeds will go to the treasury of the corporation, and become available for investment by the corporation.

Underwriters—As to the preferred, Childs, Jeffries & Thorndike, Inc. and H. C. Wainwright & Co., and as to the common, First Colony Corp.

Registration Statement No. 2-6149. Form S-4. (2-8-46).

SCRANTON-SPRING BROOK WATER CO. has filed a registration statement for $23,500,000 first mortgage bonds, due March 15, 1976, and 100,000 shares of cumulative preferred stock, par $100. The interest and dividend rates will be filed by amendment.

Address—30 North Franklin Street, Wilkes-Barre, Pa.

Business—Operating public utility.

Offering—The bonds and preferred stock will be sold at competitive bidding and the offering price filed by amendment.

Proceeds—The net proceeds from the sale of the bonds and preferred stock, and from a two-year bank loan at 2% of $1,000,000, together with general funds of the company to the extent required, will be applied to the redemption at 101 on Sept. 1, 1946, of $10,961,000 first mortgage 4½% gold bonds; to the redemption at 105 on Oct. 1, 1946, of $7,800,000 first refunding mortgage 5% gold bonds; to the redemption at 102 on Aug. 1, 1946, of $12,930,500 first mortgage and refunding 5% gold bonds series A, and to the redemption at 103 on June 1, 1946, of $2,016,500 first mortgage and refunding 5% gold bonds series B, which, with interest, will approximate $35,325,208.

Underwriters—The names of the underwriters will be filed by amendment.

Note—The company said it will, upon the request of Federal Water & Gas Corp., its parent, file a registration statement with respect to 1,000,000 shares of common stock, or such part thereof as may hereafter be offered by Federal Water & Gas Corp., and that Federal is subject to an order of the Securities and Exchange Commission to divest itself of all interest in Scranton-Spring Brook.

Registration Statement No. 2-6150. Form S-1. (2-8-46).

MERCK & CO., INC., has filed a registration statement for 120,000 shares of cumulative preferred, without par value, and 118,000 shares of common, par $1. Of the common, 18,000 shares are being sold by certain stockholders. The dividend rate will be filed by amendment.

Address—One Wall Street, New York, N. Y.

Business—Fine and medicinal chemicals and drugs, and is the principal long-line house in this field.

Offering—Holders of the company's outstanding 4½% and 5¼% cumulative preferred stock are offered the opportunity of exchanging on or before March 11, 1946, such stock for the new preferred stock. The underwriters will purchase the new preferred stock not issued under the exchange offer and sell them to the public at a price to be filed by amendment. The offering price of the common stock will be filed by amendment.

Purpose—The purpose of the proposed issues of preferred and common stocks is to effect the retirement of the presently outstanding shares of 4½% and 5¼% cumulative preferred stock, and to provide additional funds for the company. Upon issue of the new preferred stock, and when the exchange is declared effective, the old preferred stock is to be called for redemption, which is expected to be about June 17, 1946.

Underwriters—Goldman, Sachs & Co. and Lehman Brothers head the underwriting group.

Registration Statement No. 2-6151. Form A-2. (2-8-46).

SATURDAY, MARCH 2

JAEGER MACHINE CO. has filed a registration statement for 33,153 shares of common stock, without par value.

Address—550 West Spring Street, Columbus, O.

Business—Concrete mixing machines, road paving equipment, machinery and equipment for heavy-duty construction work, etc.

Offering—The company is offering the new stock to its common stockholders of record Feb. 21, 1946, at the rate of one new share for each five shares held.

Purpose—The proceeds from the sale will be used to discharge, so far as they may reach, of bank loans owing by the company as of Feb. 1, 1946, in the aggregate amount of $1,200,000. It is the intention of the company to pay off the balance of the bank loans in the normal course of business.

Underwriters—The underwriting group is headed by McDonald & Co., and the Ohio Company.

Registration Statement No. 2-6152. Form S-1. (2-11-46).

GRAYSON-ROBINSON STORES, INC. (formerly Grayson Shops Inc. of Cal.) has filed a registration statement for 50,000 shares of cumulative convertible preferred stock, without par value, and 50,000 shares of common, $1 par.

Address—498 Seventh Avenue, New York, N. Y.

Business—Company and subsidiaries operate a chain of 45 retail stores selling women's clothing and accessories, etc.

Offering—The price to the public will be filed by amendment.

Proceeds—It is anticipated that $900,000 will be used to replace working capital expended in the purchase of 50% of the capital stock of Robinson's Women's Apparel, Inc., and $450,000 will be used to prepay the company's 3% note issued for the purchase price of the remaining 50% of the capital stock of that corporation. It is also anticipated $250,000 will be used to replace working capital expended in payment in part of the purchase price of all of the capital stock of S. Klein On The Square, Inc., and of $800,000 of 20-year 8% debentures of that corporation, and $2,250,000 in payment of the balance of the purchase price of such securities. The balance of the proceeds will be utilized in the purchase of inventories.

Underwriters—Emanuel & Co. is named underwriter.

Registration Statement No. 2-6153. Form S-1. (2-11-46).

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.

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.

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.

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 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 par common stock per each $1,000 extended 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.

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.

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.

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 15 cents per share.

Underwriters—W. R. Manning & Co., Toronto, Ontario, Canada.

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.

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—Burr & Co., Inc. named principal underwriter.

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.

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.

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 Le 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.

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 public at $12 per share.

Underwriters—E. H. Rollins & Sons, Inc., and Eastman, Dillon & Co., are named principal underwriters.

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.

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.

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.

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 propsed 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.

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—Alison & Co. 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, 23,000 shares are being sold by certain stockholders.

Details—See issue of Jan. 31.

Offering—The price to the public will be filed by amendment.

Underwirters—Burr & Co., Inc., New York, is principal underwriter.

(This List Is Incomplete This Week)

Our International Policies

(Continued from page 873)

world picture, as rapidly as we can — France — the Netherlands—the Scandinavian countries—Spain—Italy—Germany—China and Japan.

But unless we immediately and forthwith reverse some of our policies, both foreign and domestic, I believe there is no chance of us accomplishing our purpose and our own position will steadily deteriorate.

Our Policy in Germany

The cruel and infamous Morgenthau plan is responsible for keeping our armies of occupation in Europe in such large numbers—for the colossal suffering and avoidable loss of life in Europe this winter—for the failure to draft a just and decent peace that will preserve some of the principles of the Atlantic Charter.

The entire breakdown of the economic and political structure of Germany—for which the unworkable Morgenthau plan is primarily responsible—is preventing the reconstruction of Europe and the tranquilizing of the world. It is costly to the American taxpayers and prevents the sending home of our soldiers.

As I have often said, we must reverse our policies in Germany and abandon the evil Morgenthau plan, whose principles are the enemy of God—of decency—of mercy—and of common sense, if we are to build a durable peace.

Stop the New Deal policy of borrowing and borrowing—spending and spending—giving and giving. Our national government cannot possibly carry the financial burden of the world on its shoulders—and continue to give a living to those unwilling to do an honest day's work. All issues in the end relate to a balanced budget and to economy and efficiency in government. If we are going to achieve a sound future for the United States, the American people must not be deluded by the siren song that government is a "sugar daddy," able to shell out money endlessly.

As far as stabilizing the world is concerned—all the money we could pour into Great Britain won't do the job—as long as our foreign policies are based on expediency, not sound principles.

Byrnes a Compromiser

Secretary of State Byrnes daily adds to his reputation as the great compromiser.

The trouble is—we always get the worst end of the dickers, with the result that we are steadily losing our stand for democratic liberalism in the world.

Compromise and inaction at home and compromise and inaction abroad is the policy of the Truman administration. The War—Navy and State Departments are unable to agree as to our policies relating to the final disposition of the Pacific Islands. Even the President's recent statement on this question vital to our national security—was so cloudy that his own party leaders—as well as department officials are seeking clarification as to just what the President meant. But that highly important question should have been definitely settled before our UNO delegation left for London.

No one can be sure what our foreign policies are with any degree of certainty at any time. Stop blaming our soldiers in foreign lands for losing American prestige when the lack of a clear, definite and honest foreign policy on the part of our national administration is the main cause.

Yet, as usual, the administration is attempting to blame the people and the Congress and the soldier. "American hysteria to get the boys back home" to quote an administrative spokesman, imperils America's prestige. But eminent non-partisan news commentators unanimously agree that our prestige is dwindling also because we have compromised our principles. That weakens our moral strength.

Let us hope that the debate on the question of the British subsidy with the representatives of the American people speaking, may be the opportunity for which we have been waiting to secure for ourselves, and the world, a clarification of our national policy, so that we may hereafter direct all of our international arrangements—not only the British loan—consistently and with conviction.

Congress, as I said before, has its first opportunity to make certain that America does have a clearly defined national foreign policy and to particpate in what that policy shall be in the future. And let me emphasize once again that our foreign policy involves the size and the duration of our armies of occupation.

Once our foreign policy is clearly defined by our representatives, and floundering and uncertainty has disappeared, it will receive the whole-hearted support of the American people.

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Illinois Securities Section on pages 838 and 839.

Confusion Worse Confused

(Continued from page 831)

to service and possible volume of future business. Then we purchased for our own account a block of bonds of that railroad. A memo setting forth our findings was prepared and brought to the attention of our customers. The bonds in question are listed. Our own bonds were not for sale at the then prevailing prices. We took orders from clients, bought a like amount of bonds on the New York Stock Exchange, added 3% to our cost and confirmed as brokers and showed the 3% as 'our charges'. Certainly no customer could or did rightly expect that we could furnish such service for $2.50 per $1,000 bond and then pay the $2.50 to a New York Stock Exchange member. . . .

"The implication of the decision in the Oxford case seems to be that everything would have been O.K. if the old gals had been gypped via proper phraseology. Can we act as principal when we own securities which we are not selling? Can we act as agent when we have some of the securities in our own investment account?"

Well, let's see what has happened since the decision in the Oxford case which may act as a guide.

If our correspondent were to accept the advice of the National Association of Securities Dealers, and regard this as his individual problem, he would call in counsel.

If on the other hand, the utterances of the NSTA were to be the criterion, the governing control would be the statement " . . . the Traders Association is of the opinion that fundamentally the fair and honest business customs and relations built up over generations may not be changed."

If the off-the-record remarks of Commissioner Caffrey at Chicago were to be the influencing force, then the writer of the above letter would limit the area of application of the Oxford decision to the Oxford case only and other violations of similar type.

Now it is perfectly true that under the "Exchange Act of 1934," Section 3 (a) (4), the term broker is defined as a person engaged in the business of effecting transactions in securities for the account of others.

This of course doesn't mean, and can't possibly mean, that every time one has dealings with another in securities he is a broker. The distinction lies in dealing WITH others or dealing FOR THE ACCOUNT of others.

Unfortunately, the attempt of the Securities and Exchange Commission to snidely extend its powers in the Oxford case, rather than by direct rule, has not added any clarity, but rather, has served only to confuse existing regulations.

If the definition from the Act itself were given a wide and literal application, all securities transactions would have to be conducted on an agency basis.

It must be clear that nothing of the sort was ever intended, and that this definition was meant to fit into the framework of the existing trade customs and usages in the securities business.

That it should have seized upon this definition as a part of the dicta in the Oxford case, demonstrates to us the weakness of the position of the SEC.

That position has stirred the NASD and also the NSTA into action. It has created a ferment in the entire industry. Commissioner Caffrey saw fit to go to Chicago and make an off-the-record explanation which was, no doubt, well intended, but which only served to emphasize the disturbance.

Now it is perfectly plain that only a statement from the Commission as a whole can serve to act as oil upon the troubled waters.

WHY IS THAT STATEMENT BEING WITHHELD?

We are interested in getting the reaction of our readers to the excerpt quoted above from the letter of a dealer, as well as their reaction to the whole problem presented by this editorial. All communications should be addressed to the Editor, Commercial and Financial Chronicle, 25 Park Place, New York 8, N. Y.