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The COMMERCIAL and FINANCIAL CHRONICLE

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British Government's Dilemma

By PAUL EINZIG

London Observer Calls Attention to Britain's Food Crisis and Dwindling Dollar Reserves as Requiring Early Congressional Ratification of the American Loan. Points Out British Government Considers It Inexpedient to Antagonize Congress by Further Import and Exchange Restrictions, Yet It Is Gambling on Further Loss of Dollar Exchange in Hope of Gaining Billions Through Loan. Sees Likelihood of Britain's Withdrawal From International Fund if Congress Refuses Ratification, and Describes Effects of Loan Delay.

Paul Einzig

LONDON, ENG.—During the first half of February food questions overshadowed everything in Britain. The announcement of the grave wheat position, and the

(Continued on page 1105)

PICTURES

of Investment Traders Association of Philadelphia's Winter Meeting on pages 1096 to 1099; Syracuse, N. Y., Bond Club Meeting on page 1118.

Index of Regular Features on page 1132.

Preventives of Inflation

By MARRINER S. ECCLES*

Chairman, Board of Governors, Federal Reserve System

Maintaining That Price Control Is the Last Bulwark Against Increasing Living Costs, Chairman Eccles Recommends as Preventives of Inflation: (1) Curbing Increase in Money Supply; (2) Increasing Available Goods and Services; (3) Balancing the Budget, and (4) Allowing Wage Increases Only When They Can Be Offset by Greater Productivity With No Price Increase. Reiterates Advocacy of Increased Taxes on Speculation and on Sale of Capital Assets.

This Committee would agree, I think, that inflationary dangers exist when the supply of money in the hands of the people who wish to spend it far exceeds the volume of goods and services available. The more this money supply exceeds the volume of goods, the greater the inflationary pressures are certain to be.

Marriner S. Eccles

It is beyond dispute that the money supply today is at an all time high level, that there is a greater backlog of demand for all kinds of goods than ever before, and that while reconversion has proceeded more rapidly than had been expected, in many important categories goods available to meet domestic, let

*Statement and excerpts from testimony of Mr. Eccles before the Banking and Currency Committee of the House of Representatives, Feb. 25, 1946.

(Continued on page 1127)

The Market Outlook and Appropriate Investment Policy

By DR. WILLIAM F. EDWARDS

Partner, Naess & Cummings

Investment Analyst Forecasts a Sustained Period of Booming Production and Business, Supported by Deferred and Self-Generating Demand. Stating That We Cannot Out-Produce War-Created Dollars, Dr. Edwards Expects the Government's Inflation Policies to Promote Active Business at Higher Prices. Advances Reasons for Doubling the Probability of a Deflationary Spiral. Expects Substantially Higher Common Stock Prices and Holds That an Intermediate Decline Below the Dow Jones (180-185) Level Is Unjustified. The British Market's Strength in the Face of the Drastic Political Upheaval is Cited.

Investors should be deeply concerned at this time. Until early February we had almost four years of rising stock prices. Most common stocks have appreciated from 100% to 300%. The stock market again has been front page news, as it was before the 1929 and 1937 crushing declines. Washington administrators say that people have been gambling on inflation that will not come. Is the stock market dangerously high? Could we have reached the end of the bull market? Is there the risk of another long-term deflationary spiral setting in?

Dr. Wm. Edwards

The problems confronting investors are made more difficult

(Continued on page 1123)

Price Control and Reconversion

By JOHN W. SNYDER*

Director of War Mobilization and Reconversion

Administration Spokesman Pleads for Continuation of Price Controls on Ground That Abrupt Ending Would Create Disordered Markets and Increase Inflationary Pressure. Denies Production Is Impeded and Lays Unbalance of Supply and Demand to Pent Up Purchasing Power and a "Limping Reconversion." Calls Also for Continuation of Subsidies, and States That, Under New Wage-Price Policy, Controls Will Not Be Rigid or Inflexible. In Detroit Address, He Offers Four Point Program of (1) Hold Line on Prices; (2) Maintain Controls to Break Bottlenecks and Assist Reconversion; (3) Adjust Costs and Prices to Prevent Inflation; and (4) Deal Vigorously With Urgent Special Problems Such as Labor-Management Relations, and Housing.

John W. Snyder

In scheduling these early hearings on the extension of the Emergency Price Control Act of 1942 as amended and the Stabilization Act of 1942 as amended, your committee is performing a very real service to the American people. We must

*Statement of Mr. Snyder before House Banking and Currency Committee, Feb. 27, 1946, followed by an address made before the Economic Club of Detroit, Feb. 18, 1946.

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Investment and Money Market Outlook

By ALLAN M. POPE*
President, First Boston Corporation

Asserting That Federal Fiscal Policy Is the Deciding Factor in Financing, Col. Pope Holds That Because of the Size and Importance of Public Debt, Interest Rates Will Remain Low and That Sound Industry Can Obtain Adequate Equity Capital. Cautions Against Lending to Foreign Companies, but Favors American Industries Establishing Foreign Subsidiaries, With Use of Local Capital. Holds That if American Business Has a Finger in World Production Pie, There Will Be World Wide Prosperity, but Americans Will Be Widely Unpopular if Foreign Nationals Are Put in Position of Borrowing When They Are Unable to Repay.

When we talk about financing anything today, the fundamentals upon which we are basing our discussion rest on the United States Government fiscal policy. When we discuss that subject we are in the realm of technical details which I know any one here can study and master, but cannot master without study. In my own firm, which handles many classes of securities including both stocks and bonds, we consider that what seems the simplest security to explain, namely government securities, is in fact by far the most complex.

Allan M. Pope

The reason we must have a sound knowledge of what our own Treasury does is because what is done today largely governs future

*An address of Col. Pope before the American Section of the Society of Chemical Industry, New York City, Feb. 21, 1946.

(Continued on page 1128)

Fiscal and Monetary Requisites For Peacetime Prosperity

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

Pointing Out That Our Financial Reconversion Has Lagged Discouragingly Behind Our Physical Reconversion, Mr. Shields Declares That Our Fiscal and Monetary Authorities Do Not Realize That Policies Demanded by War Exigencies Are Not Suitable for Peacetime. As Essential Steps in Financial Reconversion He Urges Budget Balancing, Debt Reorganization, and Revitalization of Federal Reserve Controls. Insists That Government Expenditures Can Be Promptly Reduced to $15 Billion and the Budget Balanced by (1) More Efficient Planning of Military Expenditures, (2) Elimination of All Unnecessary Public Works, (3) Discontinuation of Costly Aids to Agriculture, (4) Avoidance of Duplication in Government Expenses, (5) Liquidation of the Emergency Credit Institutions, and (6) Postponement of the "Cradle to the Grave" Social Security Program.

The dominating factor in the present fiscal and banking situation is the war-time increase in the public debt. This debt has increased in the past few years by nearly a quarter of a trillion dollars. It was about half the national income and a fraction of the national wealth before the war; today it is nearly twice the national income and approximately equal to the national wealth.

Murray Shields

As a result of the way this increase in the debt was financed, liquid funds in the hands of the people have increased tremendously with the amount of currency in circulation rising four-fold and the volume of bank deposits expanding by $80,000,000,000 to a level in excess of $150,000,000,000. The volume of liquid funds in the hands of the people now exceeds $180,000,000,000, an amount more than double our pre-war national income. These magnitudes involve a serious threat to the stability of the economy, for it is out of such situations that enterprise-deadening inflations are born.

The present situation calls clearly for a new set of financial ground rules. The monetary and banking policies of the period following World War I will not do; they helped bring on the boom of the late twenties and its sequel of violent deflation. The policies of the thirties will not do; they represented an effort to combat deflation and to alleviate distress by manipulated reflation. Such policies would be entirely out of place in meeting the problem we now face, namely, how to maintain and preserve prosperity without permitting it to degenerate into a credit-fed inflation.

A Program for Financial Reconversion

The guiding objectives of postwar financial policy should be to avoid inflation or deflation and to facilitate the expansion of private enterprise and private in-

*An address by Mr. Shields before the Texas Bankers Association, Dallas, Feb. 12, 1946.

(Continued on page 1110)

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OPA Will Hold the Line

By PAUL A. PORTER*
Administrator, Office of Price Administration

New OPA Director, Contending That His Organization Is Not in Receivership, Asserts That Price Controls Will Be Maintained, but That He Will Follow Policy of Price Adjustments Without Sacrifice of Price Stability. Attacks Opponents as Wanting to Pawn America's Future "for a Pot of Paper Profits" and Defends the "Cost Absorption" Principle on Ground That With Repeal of Excess Profits Taxes Profits Will Be at Record Heights in 1946. Denies Controls Are Impeding Production and Refutes Argument That Absence of Controls Will Permit Prices, Buying Power and Living Standards to Return to Normal. Contends Weight of Public Opinion Is for Continuation of Price Controls.

In this, my first public appearance since I have shifted to the tranquil scenes of OPA, I am not prepared to come forward with a finished credo.


Paul Porter

I have had a good deal of advice in these last few days; but most of my friends speak to me with the somber and morose attitude as if there had just been a death in the family. Now I'm all for having a barrel of fun but somehow or other a lot of perfectly responsible people seem to be suggesting that the fight against inflation is a millstone chained around our collective necks and that we are going to be pushed overboard any minute now. So I would like to attempt to talk briefly to the banking fraternity about a few facts of life as I have discovered them in recent days.

But first a word about bankers. If, in some select quarters, we of the OPA are going to continue in the role of the whipping boy, I think you of the banking group can appreciate as much as anybody I know just how uncomfortable and inequitable such a position can sometimes become. I remember because I came to Washington in 1933. That was the year of the locust, and in those fateful days it is doubtful if you would have been able to find enough bankers with the bravado to assemble openly in such numbers as I see here tonight.

The bankers' lot then was indeed a mournful one. He was the displaced person—a refugee from his depositors. Nobody loved the bankers. We have come a long way since then. The question is whether we are going back to the days when respectable fathers would pause before letting their daughters be courted by a bankers' son.

Quite obviously we don't want to return to the time when such eminently responsible and re-

*An address by Mr. Porter before the Washington Chapter of the American Institute of Banking, Washington, D. C., Feb. 23, 1946.

(Continued on page 1131)

Removal of Price Control

By ZENAS L. POTTER*
Special Assistant in Charge of Congressional Relations, Office of Price Administration

Asserting That the NAM in Opposing Continuation of Price Control Does Not "Have a Salable Product," OPA Official Contends That Removal of Controls Will Cause Inflation and Economic Suffering as After World War I. Contends That Present Buying Power Is Much in Excess of Pre-War Volume and That Price Control Removal Will Bring Spiral of Inflation and Subsequent Collapse. Says Controls Are Not Interfering With Production and Outlines Three Stages of Decontrol: (1) Period of Shortages, Wage Adjustments and Interrupted Output; (2) Period of Wage and Cost Stabilization, and (3) Period of Capacity Production, Full Employment and Stable Costs. Replying to Mr. Potter's Contentions, E. N. Allen, of Hartford, Conn., Asserts OPA Is Applying Wrong Medicine and That Inflation Already Is Here.

Not long since I was a speaker at a meeting in a Southern city at which Gene Kelly, the moving picture actor, also was to make an address. I finally got word in my hotel room that they were ready to take me to the auditorium. I entered the elevator, unaware of any special circumstance but when the door was opened, after the descent, the hotel lobby was crowded with bobby-soxers, ready to scream, then swoon, upon the expected appearance of Gene Kelly. When I emerged they said instead, "Oh-h-h-h."

I am sure that tonight you also feel like saying "Oh-h-h-h!" I am as disappointing a substitute for Chester Bowles as I was for Gene Kelly.

Mr. Bowles, however, has had placed upon his shoulders an even greater responsibility than that which rested upon them when your invitation was extended to him. He has the task of making a livable pattern out of the broken pieces of the government's previous wage-price policy. The President outlined the new policy but the details as to whom and how wage increases may be reflected in price increases depend upon Mr. Bowles' program. Many labor controversies remain unsettled; awaiting his pronouncement. Under those circumstances, I am sure you are glad Mr. Bowles has remained in Washington and sent me in his stead.

As you know, Mr. Bowles has asked Congress to extend price control legislation for another year beyond June 30. If any of you think that desire to hold their jobs longer has led OPA executives to join in this recommendation, I want to assure you that you are mistaken. One of our most

(Continued on page 1121)

*An address by Mr. Potter before the National Marketing Conference, New York City, Feb. 25, 1946.

A Uniform Treasury Certificate As Bank Reserve

By LAWRENCE H. SELTZER*
Professor of Economics, Wayne University

Dr. Seltzer Points Out the Expanded Role of Government in Economic Affairs Resulting From the Huge Public Debt, and Which Has Changed Main Base of Commercial Banking From Granting Private Loans to the Holding of Government Obligations. Says Commercial Lending Facilities Have Been Greatly Impaired and Whole Pattern of Central Banking Altered. Advocates as a Solution to Problem a Uniform Low-Interest Non-Negotiable Treasury Certificate Payable on Demand to Be Held by Banks as a Special Required Reserve. Says It Would Insure Bank Earnings, Remove Danger to Banks by Change in Interest Rates, and Coordinate Credit and Fiscal Policies.

I

The Second World War and the preceding decade of depression, deficit financing, and expansion of the role of Government in economic affairs have profoundly altered the environment of central banking in the United States. Among the major changes have been:


Lawrence H. Seltzer

First, far-reaching shifts in the climate of opinion;

Second, the rise of new Governmental tools for deliberate exertion of monetary influence, not yet coordinated with Federal Reserve machinery;

Third, the emergence of a public debt so big that even moderate increases in interest rates, one of the principal tools of traditional central banking management, would produce very sizable increases in the Government's interest costs;

Fourth, a vast increase in the public's holding of currency, bank deposits, and Government securities without a commensurate increase in output or prices; and

Fifth, the transformation of our commercial banking system from one in which the public's cash and the earnings of banks were mainly based upon loans to private business to one in which they are

*Excerpt from a paper by Prof. Seltzer, entitled "The Changed Environment of Monetary Banking Policy," presented before the American Economic Association, Cleveland, O., Jan. 25, 1946.

(Continued on page 1116)

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A Tax Program for A Working America

By ROSWELL MAGILL*
Former Under Secretary of the Treasury

Mr. Magill, in Pointing Out Tax Changes Which Will Restore a Working America to a Prosperous Peacetime Economy, Advocates (1) Elimination of Double Tax on Dividend Income; (2) Reduction of Personal Income Surtax Rates Particularly in Higher Brackets, With Maximum of 50%; (3) More Liberal Deductions to Cover Depreciation and Obsolescence of Equipment; and (4) a Balanced Federal Budget, With More Control Over Government Expenditures. Says Government's Debt and Labor Policies Encouraged More Serious Inflation Than Price Controls Have Retarded.

You and I can both wish, though perhaps for different reasons, that this address did not have to be delivered at this particular time.

Roswell Magill

The headlines on the first page of any newspaper indicate to the American reader a time of confusion and industrial stalemate, contrasting sharply with the temper of the country just a few months ago. Then we had a clear policy—to produce mightily and to win the war—and we were united in driving forward for its accomplishment. Today we can take little satisfaction in hard-driving accomplishment, for there is not enough of it. A lot of us seem to want to sit these months out, even though the sitters know that New York may freeze and Europe may starve while they do so.

Before the end of the war, statesmen were pretty well agreed that the great task at the end of the war would be rapid reconversion to the production of goods for the repair of the destruction of war and for the use of a civilization at peace. We have tremendous plants, we have an enormous force of skilled labor, we have managements that demonstrated amazing capacity and ingenuity during the war. It seemed that all that was needed was a government wise enough to get out of the way and let our industries go to work. But, of course, it wasn't quite as simple as that. Govern-

*An address by Mr. Magill, of Cravath, Swaine and Moore, Attorneys, of New York City, at the National Marketing Conference of the Chamber of Commerce of the United States, New York City, Feb. 26, 1946.

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Organization Meeting of International Fund and Bank

By HERBERT M. BRATTER

Mr. Bratter Analyzes the Problems Facing the Forthcoming Organization Meeting to Set Up the International Monetary Fund and the World Bank. Holds It Probable That Assistant Secretary of the Treasury, Harry White, Will Be Executive Director of Fund, and That Site of Institutions May Be Same as UNO. Sees Uncertainty Regarding Russia's Participation and Need for Greater Clarification of Functions of Both Fund and Bank, and Notes That World Conditions Have Changed Since Institutions Were Devised at Bretton Woods. Admittance of Additional Members Seen Major Problem.

Herbert M. Bratter

On March 8 at the Hotel General Oglethorpe on Wilmington Island near Savannah, Ga., representatives of 35 nations will come together to set up the International Monetary Fund and the International Bank for Reconstruction and Development in accordance with the Bretton Woods Agreements. The conference, to which invitations were extended by the United States government in January, is expected to complete its business within two weeks. Actually, the work the conference has to do could be completed in much less time. It is hoped that within the fortnight of meetings some of the governments which attended the BW Conference in 1944 but which have not yet adhered to the agreements will do so. These countries, all of which have been invited to send observers to the Georgia meeting, are: Australia, El Salvador, Denmark, Haiti, Liberia, New Zealand, Nicaragua, Panama, USSR and Venezuela. Moreover, Colombia has joined the Fund but not the Bank, a situation which Washington officials hope will be rectified. It seems that the Colombian legislature adjourned after approving the Fund but before endorsing the Bank.

Although the work of the Georgia conference can be handled expeditiously, the Fund and Bank are not expected to start functioning for several months thereafter. Thus, although the Treasury started its bilateral discussions with other governments several years ago and although the Bretton Woods Conference was concluded in July 1944—one of the very first "postwar" projects of the United Nations—the UNO has preceded the Fund and Bank into being. Since the United States is the one country whose participation in the Bretton Woods program is indispensable, all other countries waited for Congress to approve the plans. However, it was not until Feb. 15, 1945, that the Administration introduced the necessary legislation, Congressional hearings were not completed until almost the end of June, and the amended bill did not become law until July 31.

Thereafter, it seemed, the other countries wanted to await Britain's approval of the Fund and Bank, and this was not forthcoming until after the conclusion early in December of the Anglo-American financial agreement. Parliament's ultimate approval later that month therefore occurred only shortly before the Bretton Woods agreements' deadline of Dec. 31, 1945. By that date, as stated above, 35 countries in all had given their approval to the Fund (and 34 to the Bank); but some of the other signatories which for one reason or another had delayed their approval could not at that late date get their legislatures together to act. The most conspicuous hold-out, of course, has been the USSR, for whose abstention thus far the just-mentioned excuse does not apply. The abstention of Australia and New Zealand is attributable to profound misgivings concerning Bretton Woods rather than inertia, and it is not at all sure that they will join the Fund and Bank anytime soon. (Australia's objections were recorded in the minutes of the Bretton Woods Conference and published in the "Chronicle" of Oct. 26, 1946, p. 1820.)

Whether Russia will attend the Georgia Conference is still unknown. In conformance with the "keep them guessing" policy, Russia, whose presence at the State Department BW signing ceremony in December was vainly hoped for until the last moment, to date has not even acknowledged receipt of

(Continued on page 1112)

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Evils of Compulsory Military Training

By H. C. HOLDRIDGE*
Brigadier-General, U. S. A. (Retired)

Retired Army Officer, Asserting That Compulsory Military Training Will Defeat the Very Ends It Is Intended to Accomplish, Contends That (1) It Will Fail to Achieve Security; (2) It Will Waste Our Resources; (3) It Will Waste Lives of 18-Year-Old Boys; (4) It Will Jeopardize Democracy; (5) It Will Foster Totalitarianism and an Obsolete Military Philosophy; and (6) Will Pave Way for Another War. Says the Training Would Result in "Boon-Doggling" and Will Be Evaded, and urges Restudy of Our National Defense in Line With New Techniques and New Weapons. Calls for Elimination of Caste System in Army.

Mr. Chairman and Committee Members: I am Brigadier-General H. C. Holdridge, U. S. Army (retired). I graduated from West Point in 1917, and served a total of almost 30 years in the army. For six years I was an instructor and assistant professor of history at West Point. My service in the army was chiefly at larger headquarters commanded by our senior general officers. I graduated from the Command and General Staff School at Fort Leavenworth in 1938. At the outbreak of World War II I was serving in the Adjutant's General's office, War Department, as Plans and Training Officer, responsbile for the development and establishment of new techniques of business and personnel management.

H. C. Holdridge

My last military assignment, from 1940 to 1943, was as Commandant of the Adjutant General's School, Fort Washington, Md., and as Director of Schools Training of the Army Administration Schools located at as many as 18 colleges and universities, all of which I established, and which taught business and personal management for the entire army. These schools turned out, during my command, approximately 35,000 students. I was honorably retired in February 1944 for physical disability incurred in line of duty. I am, at present, Chairman of the Legislative Committee of the Veterans League of America, an organization of veterans and merchant seamen of World War II. The views I am presenting represent the official stand of that organization. These views are the result of my 30 years of military service during which I learned to know the army inside and out, and from a perspective seldom enjoyed by

*A statement presented by Gen. Holdridge to the Military Affairs Committee of the House of Representatives, Feb. 20, 1946. Gen. Holdridge represented the Veterans League of America.

(Continued on page 1119)

Our Outlook for World Trade

By WILLIAM K. JACKSON*
Vice-President, Chamber of Commerce of the U. S.
Vice-President, United Fruit Co.

Shipping Executive Maintains That Expanded Foreign Trade Will Help Full Employment. Holds Part Played by Our Exports Has Been Underrated and That $10 Billions of Exports Means Employment for Five Millions. Urges as Aid in Expanding Trade a Restoration of Domestic Production and Ratification of Anglo-American Loan. Advocates Trained Buyers to Increase Imports and Cautions Against Exporting by Granting Unsound Loans. Sees World-Wide Industrialization, but Contends That a Well-Developed Two-Way Foreign Trade Is Essential to Stable Post-War Economy.

Today, as never before it seems to me, our people are beginning to realize the importance and may I say the necessity of taking part in world trade.

William K. Jackson

We know that in three or four years of war we have created the greatest machine for the production of all kinds of goods that the world has even seen. We have assembled the largest force of skilled and trained labor that has ever been assembled for the production of what we need. We have developed the managerial capacity to direct the operation of these two implements of production. They are capable of producing much more than we can consume within our own borders. We have established a standard of living and a wage scale that is dependent upon the continued operation of this great machine of production and the continued employment in large part of these workers. We must look to foreign trade to achieve this goal. It is obvious that if we are to keep up our production to anything like war volume, and this seems necessary if we are to keep up high employment and high wages, then we must find a permanent outlet abroad for commodities which will replace some part of the great mass of war materials, lend-lease goods, and UNRRA supplies that we have been sending overseas. I am thinking on a long-term basis, and not merely of the comparatively short time which may be required to fill up the war-created shortages in our own country.

We are not alone in looking to

(Continued on page 1108)

*An address by Mr. Jackson before the National Marketing Conference of the Chamber of Commerce of U. S. in New York City, Feb. 25, 1946.

New Issue for Toppell

Jack Toppell, manager of the Research Department of Luckhurst & Co., 40 Exchange Place, New York City, and his wife, Bertha, are the excited parents of Dorothy Lynn. Kenneth Lawrence preceded Dorothy by three years. Associates in Luckhurst claim that the issue is already oversold.

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British Banking Sums Up Economic Position

By NORMAN CRUMP

Financial Editor of the London "Sunday Times"

British Financial Observer, in Reviewing Opinions of Bankers on Britain's Banking and Financial Prospects, Notes a Feeling of Tempered Optimism. Though Difficulties Ahead Are Noted, There Is Strong Faith in the Nation's Power of Recovery. There Is Generally Favorable Comment Regarding the American Loan, and Guarded Utterances Regarding British Domestic Politics, With an Acquiescence of the Bank of England's Nationalization.

The annual addresses by the Chairmen of Britain's leading banks have long been rightly regarded as constituting a valuable examination of Britain's economic position.

Norman Crump

There are certain features common to all their latest pronouncements.

One is the fact that for the first time since the outbreak of World War II, the decline in advances which registered every year up to the end of 1944, has been reversed. Advances at the end of 1945 were noticeably greater than at the end of 1944.

The Chairmen naturally feel that it is a little premature to attempt a full interpretation of this increase. Mr. Fisher of Barclays Bank says that it is partly due to special costs incurred by industrialists as the result of the end of the war, and that one could hardly yet adduce it as evidence of an incipient business revival. Lord Linlithgow, the new Chairman of the Midland Bank, alluded to his predecessor's promise of two years ago to the effect that in future application for advances could be based as much on the character, integrity and business capacity of the borrower as upon his material resources. He now reveals that already advances of this character exceed £1,500,000 ($6,000,000).

Lord Linlithgow also discussed the revival in overseas trade. During the year 1945 the volume of the bank's acceptances and confirmed credits had been multiplied by three. When it is remembered how important the bill of exchange is as an instrument for financing international trade, the significance of the expansion in this form of banking activity becomes apparent. Nevertheles, neither Lord Linlithgow nor any other banker would maintain that British export trade had done more than make a good beginning.

Reduction in Interest Rates

Most bankers, of course, discussed last autumn's reduction in the interest rates payable by the British Government on Treasury bills and Treasury Deposit Receipt loans. These are the chief instruments whereby the banks provide the Government with short-term loans, and during the war they have loomed very large in the bank accounts. The reduction in interest rates—from 1⅛ to

(Continued on page 1107)

21 States Set Jan. 1 as Assessment Date

To properly implement the provisions of the new Missouri constitution adopted early in 1945, the Missouri legislature shifted the assessment date for real property from June 1 to Jan. 1, the National Association of Assessing Officers reports.

This action brought to 21 the number of states using Jan. 1, or some other date in January, as the assessment date for real estate. In addition to Missouri, these are: Arkansas, Florida, Georgia, Idaho, Iowa, Louisiana, Maryland, Massachusetts, Mississippi, New Mexico, Oklahoma, Oregon, South Carolina, Tennessee, Texas, Utah, Virginia, Washington, North Carolina and West Virginia.

April dates for assessment are preferred by eight states including: Illinois, Maine, Michigan, Nebraska, New Hampshire, North Dakota, Ohio and Vermont.

Real property is assessed in five states during the month of March. The states are California, Colorado, Indiana, Kansas and Montana.

Wyoming makes assessments in February; Minnesota, South Dakota and Wisconsin in May. Rhode Island assesses real property in June, and Kentucky, New York and the District of Columbia in July. Alabama, Connecticut and New Jersey make assessments in October.

Four states—Arizona, Delaware, Nevada, and Pennsylvania—have not designated particular dates for assessing real property in the general law.

Ways to Industrial Peace

By DONALD R. RICHBERG*

Mr. Richberg Maintains That Labor Leaders Have Assumed a Dictatorial Attitude, Not Only Because They Have Power Without Public Responsibility, but Also Because They Fear That Scheming Radicals Will Capture Their Unions if They Deal Fairly With Management. Blames Management for Having No Agreed Program and Calls Upon Government to Set Up Machinery for Enforcing Industrial Peace and Thereby Not Permit Domination of a Class Interest. Holds Special Privileges Have Been Given to Unions Which Create Labor Monopolies and Destroy Private Enterprise and Urges Nation Be Given New Birth of Freedom by Destroying Government by Class.

The road to industrial peace will not be found by following the short sighted leadership of organized labor or the muddled leadership of industrial management.

Donald R. Richberg

The dictatorial attitude of conspicuous labor leaders is not simply the product of too much power without public responsibility. It is also the outcropping of fear—an ever pressing fear that scheming radicals will capture control of their unions if they show any desire to deal fairly with management. That is why men who have as much sense as Murray and Green and Lewis rave like demagogues against every practical effort to settle labor disputes by a rule of reason instead of by a rule of force.

Fear of losing their power has given these labor leaders such a low boiling point that the mere suggestion of any legal restraint makes them positively steam with fright. Yet their bullying, browbeating, hell-raising tactics become day by day more destructive to public interests and to the liberties of all the rest of the people.

President Truman made the mild proposal that in disputes of major importance the starting of civil warfare should be deferred for 30 days so that a presidential commission could have a chance to make an investigation and a report that might lead to a settlement. Whereupon Philip Murray denounced the President for what he called yielding in "abject cowardice" to the "arrogance" of industrial management. But a few weeks later Murray did not call it "abject cowardice" for the President to yield to the "arrogance" of labor. On the contrary, Murray thought it was quite right to reward labor for needless, lawless striking in plain violation of contracts. He thought it was quite right to reward labor for scorning government mediation and fighting against government fact-finding. He thought it was quite right to reward labor for its brutal disregard for the general welfare, by granting increased wages which had not been justified by any earnings.

According to the Murray logic there is no "abject cowardice" in yielding to such labor "arrogance." That is statesmanship. But, to suggest that labor leaders should fulfill their public responsibilities is a sin, calling forth the choicest vituperation in the well-stocked vocabularies of labor politicians.

Management Has No Program

It is most unfortunate that at this time industrial managers have no agreed and practical program for industrial peace. Some apparently want a fight to the finish against labor unions, with the government acting only as the umpire of an old-fashioned trial-by-combat. Others want government to deny special privileges and immunities to unions that break their contracts or carry on strikes with deliberate, ruthless violence. Others want more effective mediation and fact-finding by government, but with no compulsions on labor or management even to defer using legalized force against each other.

It is evident that businessmen as a rule are fearful of extending the government regulation of labor relations. This is largely the result of a widespread feeling that politicians in public office will usually favor the voting power of the unions and find it safer to maintain peace by satisfying

(Continued on page 1112)

*An address by Mr. Richberg, of Davies, Richberg, Beebe, Busich & Richardson, attorneys, Washington, D. C., before the Executives Club, Milwaukee, Wis., Feb. 20, 1946.

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Price Rises or Deflation?

By EDSON GOULD*

Market Analyst Argues That We Are Not in the Beginning of a Deflation Spiral That Will Carry Stock Prices Well Below Recent Levels. Sees Nothing New in the "Price Squeeze" and Contends That Eventually Political Desirability of Increasing Production Will Triumph Over Efforts to Get Something for Nothing by Raising Wages and Holding Down Profits and Prices. Maintains Inflation Fears Are Not Well Grounded and That Conditions Working Against Inflation Exist Now That Were Absent After World War I. Concludes Long Term Outlook Favors Retention of Stocks and Looks for Another Vigorous Upward Movement.

The factor that has contributed most to the sharp reduction of confidence in the outlook for industrial activity, corporation earnings and stock prices in the recent past is the spectacle of indefinite continuance of Government control over wages, prices and profits.

Edson Gould

The big question confronting stock investors is whether the recent decline is the beginning of a sizable and prolonged deflation in the whole economy that would carry stock prices down drastically and rapidly, as in 1937 or late 1929, for instance, or whether this is no more than a sizable reaction in the long bull market.

Such logic as one can muster, in this period of rule-by-men rather than rule-by-laws, suggests that we are not in the beginning of a spiral of deflation that will carry stock prices well below recent levels.

Admittedly, if the more radical elements of Washington, and they are not without political power, were to have their way and carry out their plans for the American form of the corporate state, the near and intermediate term outlook would be for more and more of the confusion witnessed over recent months, further work stoppages, further damage to business and financial sentiment, a cutting of dividend payments and materially lower stock prices. That is roughly the kind of outlook the market has recently contemplated and it is not at all impossible, but it does not appear likely.

Bull and Bear Factors

Over a period of years now the market has been alternately buoyed and depressed by the opposing factors of the large supply of funds seeking investment and the fears of owners of capital over the adverse effects on earning power of the political and social changes through which this country and the world are passing.

After the change in Administration last April, there was, until recently, a growing confidence in the long term outlook for business and corporate earnings that found reflection in rising stock prices. But more recently, upon announcement of the Government's wage-price policy, renewed apprehension over the intermediate, as well as longer term, future has appeared.

The Price Squeeze

There is nothing new in the price squeeze threatening manufacturing industry. What is new is the fear that governmental decisions may mean that profit margins will be restored via cost deflation rather than by higher prices.

About a year ago a memorandum "Prices, Wages & Profits" stated: "The American economy at present, so far as manufacturing industry is concerned, is not in balance. The rise in wage costs and the fixing of prices have just about eliminated profit margins in industry, all protests to the contrary notwithstanding."

". . . Profit margins of manufacturing industries in one way or another will be restored. Either costs will be sharply reduced or prices will rise."

Some betterment in profit margins followed the ending of the war, but whatever increase thereby occurred has been or will, in most instances, be more than cancelled by the wage increases of 15% to 18% to which the Government has given assent unless, of course, prices are increased.

Price Rise vs. Deflation

Undoubtedly the political undesirability of rising living costs has been an important determinant in the policies thus far announced by the Government, but even from a political point of view such an attitude is hard to explain, except on ideological grounds of desire to effect an organic change in the whole economy, that is, to substitute full scale totalitarianism for our present harassed capitalism.

Sooner or later the political desirability of getting production, even if accompanied by corporate profits and higher prices, will triumph over present misguided efforts to get something for nothing by raising wages and holding down prices. It requires no high degree of political sagacity to conclude that a period of deflation akin to 1937 or that following 1929 would be politically more costly and damaging than the moderate increase in prices that would permit full scale resumption of industrial activity with accompanying large scale employment and spending.

Inflation Fears

As a matter of fact intense inflation fears, so far as large rises in goods prices are concerned, are not well grounded. Comparisons have loosely been made with the post-World War I period. The current situation is almost the reverse of that which then obtained. The period following World War I was one of capital shortage and a deficiency, in relation to demand, of goods-producing capacity. The sharp rise in commodity prices that then occurred, as well as the high long term interest rates that then obtained, were both indicative of that situation. Today there is no shortage of capital, no shortage of goods-producing capacity. Record low interest rates and the failure of commodity prices to rise more than they have, even granting governmental controls, are indicative of a situation which is the exact antithesis of that of 25 years ago.

Wars are, of course, inflationary and the huge budgetary deficits of recent years have had the effect of enlarging the supply of money that has in turn brought on a process of erosion in the purchasing power of the dollar.

That which gives the appearance of a terrific inflationary pressure is the throttling of supply at the source by a multitude of restrictions.

Earnings and Dividends

It is a foregone conclusion that first half earnings will not be good. It is doubtful that that consideration is an important element making for bearish sentiment toward stock prices.

What will prove important to the trend of the market over coming months will be the level of dividend payments. Should the whole industrial situation become further snarled to the extent of influencing boards of directors of leading corporations to reduce or pass dividends, the effect on the market would, of course, be adverse. However, the strong position of corporate treasuries plus the cushioning effect of the carry-back provisions of the tax laws suggest maintenance of dividend rates in most instances, providing only confidence in the longer outlook is not further greatly impaired.

Market "Overbought"

The recent revulsion of financial sentiment came on a market that had been rising ever since last August with very little in the way of intermediate reactions. In view of the vigor and speed of the long advance, the yielding of the price structure to selling pressure was not too surprising.

In a recent memorandum "Market Enters Volatile Phase" it was stated: "It appears reasonable to expect at this stage of the market a wider amplitude of movement than witnessed over recent months. Whereas for a long time the rises have been characterized by steep advances, punctuated by little more than sideward movements, from here on more decisive fluctuations in both directions, on a still rising plane, however, are to be expected."

That is just what we have been seeing and are likely to continue to see. The thinness of the market combined with important events and decisions that result in sudden shifts in financial sentiment seem certain to produce a market that will continue to swing widely.

Present Outlook

What is needed to reinstate confidence in the outlook and to bring a real reversal in the trend of stock prices is more tangible evidence of probability of a resumption of industrial production than witnessed thus far. Continued vacillation in policy-making upon the part of the Government and further spreading of uneasiness over the outlook could bring substantial further delay in resumption of industrial activity, but it seems more reasonable to believe that the apparent impossibility and impracticability of recently enunciated policies may bring an early change in Administration attitude.

The long term outlook continues sufficiently good to justify retention of stocks held on a truly long term basis. The intermediate term outlook also suggests retention of holdings on the premise that this whole phase of advance from late 1943 to date has not yet ended, even though it may be in process of ending. The near term outlook suggests some further decline that may or may not go to moderately lower than recent levels, and then another vigorous upward movement.

*Mr. Gould is a member of the Research Staff of Smith, Barney & Co., but the opinions expressed are his own and not necessarily those of the firm.

Immunities Given UNO Representatives

The usual diplomatic immunities, privileges and exemptions were granted by an executive order of President Truman on Feb. 19 to representatives of the United Nations Organization, the Pan American Union, the United Nations Relief and Rehabilitation Administration, the International Labor Organization and International Food and Agricultural Organization, under authority existing in legislation passed by Congress, special advices from Washington to the New York "Times" stated, and went on to say:

"The matters with which the order dealt were of such nature as exemption of representatives of these organizations from immigration restrictions, from income tax on their official salaries, from registration as aliens and exemption from arrests for acts committed in the course of their official duties. These privileges will ultimately be extended to several thousand employees of these organizations, especially after the UNO has established its permanent headquarters in the United States.

"The Preparatory Commission of the UNO drew up a draft convention between the UNO and the United States, which it suggested might be used in the event the organization decided to establish its headquarters in this country. The draft, however, does not fully meet the views of the United States officials dealing with the matter, it is understood, and revisions are being made.

"At the State Department it is hoped that the matter can be worked out by agreement of the Federal and State governments concerned, without raising any new constitutional problems. It is argued that no cession of territory is envisaged and that the UNO would merely buy or lease lands and buildings in the same manner as a private occupant. However, in the event that owners refused to sell or rent, it is conceded that the public interest might have to intervene in the form of expropriation."

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Decree on Assets in Foreign Monies of French Nationals

Advices regarding the receipt of the following cablegram from Paris on Feb. 14 was made known by R. F. Loree, Chairman of the Foreign Exchange Committee on Feb. 15.

"Journal Official of today publishes decree requisitioning all liquid assets in foreign monies belonging to French nationals whose residence is considered French territory. Assets in foreign monies, such as bank balances, currency checks, letters of credit and other sight or short term assets of similar nature must be sold to the stabilization fund under conditions and on dates to be fixed by exchange control. Banks will be required to automatically transfer their clients' accounts in foreign monies to the stabilization fund and hold the proceeds in francs at the disposal of their clients."

Truman Vetoes Filipinos' Bill on Japanese Money Payments

An act passed by the Philippine Commonwealth Congress, designed to make valid payments made in Japanese invasion money while the Japanese occupied the Islands, was vetoed by President Truman on Feb. 7, United Press Washington advices stated. Acting shortly after a conference with U. S. High Commissioner to the Philippines Paul V. McNutt, recently returned to this country, the President said that the act would have legalized "transactions and payments made under the brutal Japanese regime, without regard for the actual value of the Japanese-backed currency with which such payments were made." The press advices added:

In a letter to Philippine President Sergio Osmena, Mr. Truman declared that if the act had become law it would have retarded rather than aided the economic rehabilitation of the Philippines.

"I do not know what motives actuated the Philippines Congress in taking this step," the President said, "but I cannot properly discharge my responsibilities to the people of the Philippines without disapproving this act."

Bond Brokers Association Of NYSE Elects Officers

The Association of Bond Brokers of the New York Stock Exchange has elected Roland L. De Haan of Mabon & Co., President. Other officers are C. Peabody Mohun, Stern, Lauer & Co., Vice-President, and John Wasserman, Asiel & Co., Secretary-Treasurer.

Public Utility Securities

General Public Utilities

Mr. A. F. Tegen, President of General Public Utilities Corp., (surviving company of Assocated Gas & Electric) recently addressed the New York Society of Security Analysts, presenting data on the company's position as of Jan. 1, 1946. He stated that the company expects to carry its investments on its own books and the books of its subholding companies, except Associated Electric Company, on the basis of the value found by the Court in the bankruptcy proceedings. While the SEC has not yet given final approval to the figures, Mr. Tegen thinks there will be no substantial changes. Common stock would be stated at $37,682,500, capital surplus at $66,239,223 and net current assets would amount to $7,213,853.

A. F. Tegen

Associated Electric Company, an important subholding company, has been excluded with its subsidiaries from the earnings statements, and its balance sheet figures have not been adjusted, because of the problems involved in rehabilitating the properties owned by its Philippine Islands subsidiaries.

The consolidated statement of income shows that, over a period of years, the subsidiaries have more than retained their gross income. In 1945 consolidated net income (before any special tax savings resulting from reorganization) was $10,910,400. However, this net was after deduction of interest and preferred dividends totalling $11,289,000. Giving effect to refundings and other capital changes in 1945, these deductions would be reduced to an annual amount of $10,189,764. While the saving of approximately $1,100,000 would be offset by about $300,000 additional taxes, net income would be increased to $11,709,761. From this it would be necessary to deduct parent company interest and expenses which would leave a net income estimated at $11,120,183. This figure would be at the rate of $1.48 per share for the common stock expected to be issued in consummation of the recapitalization plan.

Mr. Tegen indicated that GPU's subsidiaries are in excellent position to carry on during the reconversion period, and they are also in sound current position to proceed with a heavy construction program. However, rehabilitation in the Philippines is proceeding slowly and the company has not yet established the amount of its loss. Manila Electric Company is now in full possession of its properties and furnishing electric and transportation service; on the basis of incomplete information, income of the Philippine subsidiaries on an annual basis may now be substantial, though it is uncertain how long before it can be brought back to prewar levels. Associated Electric Company (not included in the GPU statement) may also benefit by the proposed merger of Pennsylvania Edison Company into Pennsylvania Electric Company. It is also planned to reduce the outstanding preferred stock of Jersey City P. & L. (controlled by GPU) to $12,500,000, and to refund the balance. However, since the regulatory Commissions have not yet approved these transactions, Mr. Tegen hesitated to indicate how much improvement would result from the mergers.

General Public Utilities is currently selling at 19½ on the Stock Exchange, the range since it was listed being 22⅛ - 18⅞. The stock currently is selling at 13.2 times the share earnings as estimated by Mr. Tegen (which does not include the equity in Associated Electric). This ratio compares with some other holding company stocks as follows:

American Light & Traction	16.7
Columbia Gas & Electric	24.0
Electric Power & Light	14.0
Engineers Public Service	16.0
Middle West Corp.	20.0
National Power & Light	16.4
North American Co.	18.5
Philadelphia Co.	17.0
United Light & Railways	15.4

Some of the above systems may effect substantial savings in federal taxes this year (although part or all of such savings might be lost in tax reductions). General

(Continued on page 1115)

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Solving the Labor Problem

By ROGER W. BABSON

Mr. Babson, Asserting That Though Congress Cannot Prevent Strikes, Holds That They Can Be Made Less Serious. Opposes Compulsory Arbitration in Competitive Industries. Advocates Applying Same Laws and Rules to Both Corporations and Unions And Holds It Is a Mistake to Have Wages and Prices Fixed by Different Authorities. Sees Need of Shareholders Choosing Efficient and Competent Corporation Officials.

Having served in Washington as Assistant Secretary of Labor during World War I and later as Director-General of Information and Education, many letters are coming to me asking as to what can be done to prevent strikes. I am replying "Nothing can prevent strikes, but Congress can do something to make them less serious." Upon referring to certain to certain notes which I made at the close of World War I, I find the following conclusions. They are 100% equally true today, at the close of World War II.

Roger W. Babson

Compulsory Arbitration

Compulsory arbitration, ecept in the case of railroads, public utilities, and other monopolistic enterprises, is both impractical and unjust. To talk compulsory arbitration for competitive industry is foolish. It, however, is practical in the case of non-competitive and monopolistic enterprises. Honest collective bargaining should be encouraged in all cases; but it must be on the basis of supply and demand for labor in a free and non-controlled market. But even this leads to a discussion of the justice of inheritance and whether we can have truly "free-enterprise" along with the inheritance of property.

Voluntary mediation boards should materially be strengthened and their use encouraged. These boards should consist of three prominent men all of whom have the public's respect—one selected by the unions, one by the companies, and one by them jointly. These men should be given sufficient funds to secure all necessary information within a reasonable time and both sides should agree in advance to accept their decisions as final. It may be possible to have union-company agreements for "cooling off" periods during the limited time that these mediation boards are reaching a decision.

Same Rules Should Apply to All

Both corporations and unions should equally be subject to the same anti-trust laws and the same corporation laws which have come to be recognized as standard practices. In this connection, both labor and management should have an equal right to press their views to one another and to the public. Both the unions and companies should gradually consolidate their operations so that the industry as a whole will be negotiating rather than independent companies. This is the English custom and should be adopted in the United States.

It is a mistake for President Truman to get mixed up either with rates of wages or prices of goods. As to inflation—following World War I we suffered from inflation but very little was done to prevent it. We have taken a great step forward in these past twenty years in recognizing both the advantages and dangers of inflation. Too much inflation should be fought like a prairie fire; but some inflation now must be necessary in view of our tremendous war debt. *Certainly, wages and prices should be considered by the same mediation boards if prices are to be fixed for more than a short, temporary period.*

Corporation Officials Versus Labor Leaders

Letters are coming to me asking if the corporations have as good leadership as the big unions? Many investors feel that too many corporation officials have inherited their jobs, while most union leaders have fought their way to the top through sheer ability. These investors would not object to paying large salaries to the heads of their companies provided they have the needed ability. Too many stockholders now seem to be losing faith in the ability of these company officials whom they mechanically re-elect every year by blindly signing absentee proxies.

It is surely up to the stockholders of corporations to get as loyal and able leaders as the union membership gets. Moreover, stockholders must some day insist that their directors and officials get results for them in the form of larger dividends when, as and if the labor leaders get more for their union memberships Stockholders will some day insist upon annual physical examinations and audits concerning the health of company directors and officials the same as they now have annual financial audits.

Lower Treasury Rates And Bank Earnings

M. A. Schapiro Warns That a Policy to Convert Maturing Government Bonds into ⅞% Treasury Certificates Will Cause Loss of 36% in Bank Profits

If the Treasury continues to offer ⅞% Treasury Certificates in exchange for maturing Government obligations in the face of rising operating costs, earnings of small commercial banks will be seriously affected, M. A. Schapiro, of M A. Schapiro & Co., Inc., specialists in bank securities, told the meeting of the New York City Bank Comptrollers and Auditors Conference held on Feb. 19 at the Hotel Pennsylvania.

Mr. Schapiro estimated that a rise of 10% in operating costs would produce a decline in net current operating earnings after taxes of $200 million for member banks of the Federal Reserve System, if this occurred in conjunction with replacement of present Government securities with ⅞% certificates.

In 1945, Mr. Schapiro estimated all member banks of the Reserve System had aggregate net current operating earnings after taxes of some $555 million, as compared with $562 million in 1944. Assuming a refunding of all U. S. Government obligations held by these banks into ⅞% Treasury Certificates, as well as a 10% increase in operating costs, 1946 net current operating earnings, after taxes, would drop to $355 million, or 36%, if no other factors changed.

Pointing out that the Treasury is apparently less concerned with the investment problems of the commercial banks than it is with similar problems faced by savings banks and life insurance companies, Mr. Shapiro suggested that comptrollers and auditors call to the attention of bank managements and stockholders the serious threat to bank earnings which would result, if the Treasury continues to offer ⅞% Treasury Certificates to commercial banks in exchange for maturing Government obligations they now hold.

Record Attendance Assured at Anniversary Dinner of New York Security Dealers Association

Over 1,200 reservations have been made for the Twentieth Anniversary Dinner of the New York Security Dealers Association to be held in the Grand Ballroom of the Waldorf-Astoria Hotel on Friday, March 8, 1946. There is every indication that this dinner will be the most successful affair to be held by the association.

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Reservations have been made by many out-of-town groups including Chicago, St. Louis, Philadelphia, Boston, Pittsburgh, and Cincinnati, and many leaders of government, finance and industry will be present.

J. Arthur Warner of J. Arthur Warner & Co. is chairman of the committee having charge of the dinner.

Senate Confirms Allen As Director of RFC

The Senate on Feb. 18 confirmed the nomination by President Truman of George E. Allen as a director of the Reconstruction Finance Corporation, after rejecting by a vote of 43 nays to 27 yeas, a motion to recommit the nomination to the Senate Banking and Currency Committee for re-examination. According to Associated Press advices from Washington Feb. 18 three Republicans voted against recommitment. Sen. J. William Fulbright, Arkansas, was the lone Democrat to vote for it. Republicans for included Senator Taft, and Democrats against, Senator James W. Huffman, also of Ohio. In an attempt to block Mr. Allen's confirmation, Senator Taft also expressed his disapproval of two other Truman nominees before Senate Committees, viz.: Edwin W. Pauley to be Undersecretary of the Navy, and Com. James Vardaman to membership on the Federal Reserve Board.

The Senate Banking Committee after a two-hour hearing on Feb. 7, voted on Feb. 8 approval of the nomination of Mr. Allen to be a director of the RFC. Three Republicans joined eleven Democrats on the Committee in voting favorably for Mr. Allen, a Washington insurance man and, according to the Associated Press, a confidential adviser to President Truman.

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Just Thinking

By MARK MERIT

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Well, anyway, we met a gentleman in the lounge car. He was once a fine polo player and an important financier in New York, but is now retired and living in California. He does, however, make occasional business trips to New York, since he is still Chairman of the Board of an important company. We were having a cocktail, to whet our appetites for a splendid dinner. We didn't know each other's name at the time, but the conviviality of enjoying a drink together created the sort of friendliness which, somehow or other, usually dispels diffidence in men; brings them closer together.

It occurred to us then, and it occurs to us now, that important conferences among the leaders of our present day world are usually made more friendly when the conferees clink glasses together in a preliminary gesture which is understood in any language.

And we're inclined to believe that in matters controversial, between individuals or between nations, the start of a discussion is as important as the finish.

And speaking of a friendly drink or two, we're reminded that all we have to do is just put two little letters—ab—as a prefix, before the word "use", and we have the word "abuse".

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For ten years prior to entering the service, Mr. Lee was with Albert Frank-Guenther Law, Inc., national advertising agency. He was graduated from Princeton University in 1931.

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I. C. C. Reviews 1945 Rail Operations—summary of report—Vilas & Hickey, 49 Wall Street, New York 5, N. Y.

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.

Railroad Bankruptcy Act—memo on impending changes in act—H. Hentz & Co., 60 Beaver Street, New York 4, 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—highlights—Butler-Huff & Co., 210 West Seventh St., Los Angeles 14, Calif.

Bost, Inc.—detailed circular on interesting low-priced speculation—Hardy & Hardy, 11 Broadway, New York 4, N. Y.

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

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

Dayton Malleable Iron Co.—Study of outlook and speculative possibilities for appreciation for this company—Ward & Co., 120 Broadway, New York 5, N. Y. Also available are late memoranda on: **Great American Industries; Alabama Mills, Inc.; Douglas Shoe; General Tin; Upson Co.; New Jersey Worsted Mills.**

E. I. du Pont de Nemours—study of situation—Edward P. Field & Co., 37 Wall St., New York 5, N. Y.

C. H. Dutton—detailed analysis—Moreland & Co., Penobscot Building, Detroit 26, Mich.

Electric Utility Operating Companies—study of attractive investment possibilities—E. F. Hutton & Company, 61 Broadway, New York 6, N. Y.

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

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

Equity Oil—Utah Southern Oil—Rangely Oil of Colo.—detailed circular—Amos C. Sudler & Co., First National Bank Building, Denver 2, Colo.

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

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

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

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

Great American Industries—Circular—J. F. Reilly & Co., Inc., 40 Exchange Place, New York 5, N. Y.

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 is a study of **York Corrugating.**

Lehigh Valley Railroad—Circular—McLaughlin, Reuss & Co., 1 Wall Street, New York 5, N. Y.

Maryland Casualty Co. — Analysis of interesting situation—Sills, Minton & Co., Inc., 209 South La Salle Street, Chicago 4, Ill.

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.

Motorola—descriptive circular—Seligman, Luketkin & Co., 41 Broad Street, New York 4, N. Y.

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.

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

Also available is a circular on **Rockwood & Co.**

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.**

Robbins & Myers, Inc.—revised bulletin—Doyle, O'Connor & Co., Inc., 135 South La Salle Street, Chicago 3, Ill.

Rockwood & Co.—circular—Hoit Rose & Troster, 74 Trinity Place, New York 6, N. Y.

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

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.

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

Textiles, Inc. — Memorandum — Buckley Bros., 1529 Walnut Street, Philadelphia 2, Pa. Also available are memoranda on **Redd Pump** and **Osgood 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.; Motorola.**

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

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

West Virginia Pulp & Paper—study of outlook—Goodbody & Co., 115 Broadway, New York 6, N. Y.

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Confer on Plans For Expansion of Mid-West Markets

CHICAGO, ILL. — Ralph W. Davis, Chairman of the Board of Governors of the Chicago Stock Exchange, in Milwaukee to confer with the city's financial leaders on post-war plans for the expansion of middlewestern financial markets, said today:

"Middlewestern banks and financial houses must combine their efforts to hold and expand the place they have won during the war. Milwaukee, for example, is probably industrialized to the highest percentage of population of any city in the Middle West.

"When I speak of the Middle West," Mr. Davis continued, "I mean from Pittsburgh to Denver and from Duluth to New Orleans. The development of air travel, the teletype, and direct wires has placed the cities in this territory in each others' front yards.

"We of the Chicago Stock Exchange are very much interested in the growth of markets for capital and securities in the Middle West, and it is our objective to further this 'doing business at home.'

"The expansion of bank loans, origination of new underwritings, and the development of both over-the-counter and listed markets are definitely to the interest of everybody in the Middle West."

N. Y. Chamber to Burn Mtg. at Anniversary

The 177th anniversary dinner of the Chamber of Commerce of the State of New York to be held in the grand ballroom of the Waldorf Astoria Hotel on Mar. 5 will be climaxed by the burning of the $400,000 mortgage which has encumbered the Chamber property at 65 Liberty Street for many years. Leroy A. Lincoln, President, under whose leadership the money to pay off the mortgage was raised, will apply the match to the document.

The dinner will be unusual in that there will be no speaker nor speakers' table. Instead, a pageant depicting notable events in the history of the city, State and nation with which the Chamber was concerned from the time of its founding in Colonial days will be presented for the entertainment of the diners. It will be the first time that the nation's oldest Chamber of Commerce has had no speaker at an annual banquet.

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NSTA Notes

SECURITY TRADERS ASSOCIATION OF NEW YORK

The Annual Dinner of the Security Traders Association of New York will be held at the Waldorf-Astoria Hotel on Friday evening, April 26. All indications point to a very large attendance, and the Committee has had many requests for tables already. Reservations may be made with any member of the Arrangements Committee.

STANY COMMITTEES

Arrangements:—John M. Mayer, Merrill Lynch, Pierce, Fenner & Beane, Chairman; John F. McLaughlin, McLaughlin, Reuss & Co.; William J. Kumm, Dunne & Company; Jerome C. Aal, Abraham & Company; Walter F. Saunders, Dominion Securities Corp.; William T. Schmidt, Laird, Bissell & Meeds; John J. O'Kane, Jr., J. J. O'Kane, Jr. & Co.; Andrew Stevens, Bond & Goodwin, Inc.; Wellington Hunter, Hunter & Company; Arnold J. Wechsler, L. J. Goldwater & Co.; Elmer E. Myers, B. W. Pizzini & Co.; John F. Reilly, J. F. Reilly & Co.; Herbert Singer, Luckhurst & Company; Edward Thompson, Smith, Barney & Co.; Leslie Barbier, G. A. Saxton & Company; Allen F. Moore, H. Hentz & Company.

Publicity:—Alfred F. Tisch, Fitzgerald & Company, Chairman; Roald A. Morton, Blue List Publishing Co.; Eliot H. Sharp, Investment Dealers' Digest; Louis Walker, National Quotation Bureau; Herbert D. Seibert, Commercial & Financial Chronicle; Raymond Trigger, Investment Dealers' Digest.

Auditing:—Joaquin Titolo, Harris, Upham & Company, Chairman; Irving N. Maxfield, Cohu & Torrey;; Abraham Strauss, Strauss Brothers.

Membership:—George V. Leone, Frank C. Masterson & Co., Chairman; Elmer Lally, Hayden, Stone & Co.; Thomas S. Evans, Lee Higginson Corporation.

By-Laws:—John J. Laver, E. A. Purcell & Co., Chairman; Stanley Roggenburg, Roggenburg & Company; William K. Porter, Hemphill, Noyes & Co.; William N. Gregory, Bonner & Gregory; Bertram Seligman, Ward & Company.

Municipal:—Walter E. Sullivan, Elder, Wheeler & Co., Chairman; Wm. G. Carrington, Ira Haupt & Co.; A. A. Sullivan, Equitable Securities Corp.; Frank E. Carter, Jr., Carter & Chadwick.

Employment:—Willis M. Summers, Troster, Currie & Summers, Chairman; T. F. Mackessy, Abbott, Proctor & Paine; Wilbur R. Wittich, Maxwell, Marshall & Co.

Sports:—Joseph M. Kelly, J. Arthur Warner & Co., Chairman; Thomas Greenberg, C. E. Unterberg Co.

Reception:—John Kassebaum, Van Alstyne, Noel & Co., Chairman; Stanley Roggenburg, Roggenburg & Company; Wilbur R. Wittich, Maxwell, Marshall & Co.; Walter F. Saunders, Dominion Securities Corp.; B. H. Van Keegan, Frank C. Masterson & Co.; Harold B. Smith, Collin, Norton & Co.; Willis M. Summers, Troster, Currie & Summers; Richard Abbe, Van Tuyl & Abbe.

Tax and Legislation:—P. Fred Fox, P. F. Fox & Company, Chairman; John S. French, A. C. Allyn & Company; James T. McGivney, Hornblower & Weeks; Walter Murphy, Jr., Walter Murphy, Jr., Co.

Forum:—Richard Abbe, Van Tuyl & Abbe, Chairman; Milton Van Riper, Mackubin, Legg & Co.; Carl Stolle, G. A. Saxton & Co.

LOS ANGELES MEN RETURN FROM SERVICE

Donald E. Summerell, Member of the Publicity Committee of the National Security Traders Association, reports that the following men have returned from the Service and are now associated with various Los Angeles firms:

Pierce Garret, Cruttenden & Co.; Joseph La Puma, Barbour, Smith & Co.; Ted D. Carlson, Crowell, Weedon & Co.; Max Hall, Dean Witter & Co.; E. Parkman Hardcastle, Dean Witter & Co.; Frank Link, Walston, Hoffman & Goodwin; Paul Goldschmidt, Pacific Co.; William Miller, Fairman & Co.; James Hill, Walston, Hoffman & Goodwin; John Earle Jardine, Jr., Wm. R. Staats Co.

New York Stock Exchange Weekly Firm Changes

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

Edward L. Elliott, limited partner in Van Alsyne, Noel & Co. will become a general partner, effective today.

Privilege of Clifford Hollander to act as alternate on the floor of the Exchange for Robert F. Shelare of Hirsch & Co. was withdrawn on Feb. 20th.

Henry R. Sutphen, Jr. and John N. Hopkinson are retiring from partnership in Hackney, Hopkinson & Sutphen as of today.

Dorothy H. Lauria retires from limited partnership in McManus & Mackey as of today.

Interest of the late H. H. Lobdell in Lamson Bros. & Co. ceased on Feb. 4th.

Illinois Personnels

AURORA, ILL. — **Emil O. Schwanz** is with **Carter H. Corbrey & Co.**, 135 South La Salle Street, Chicago. He was formerly with William H. Flentye & Co. and Alexander & Co.

(Special to THE FINANCIAL CHRONICLE)

AURORA, ILL.—**Ralph R. Warren** is with **William H. Flentye & Co., Inc.**, Graham Building.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—**G. M. Psaltis** is with **A. C. Allyn & Company, Inc.**, 100 West Monroe Street, after serving in the U. S. Army.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — **Arthur W. Curtis** has rejoined **A. G. Becker & Co., Inc.**, 120 South La Salle St., after serving in the armed forces.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—**William C. Thornton** has become affiliated with **Paul H. Davis & Co.**, 10 South La Salle St. He was formerly with First Securities Company of Chicago.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — **Samuel J. Haight** has rejoined **Lamson Bros. & Co.**, 141 West Jackson Boulevard, after serving in the armed forces.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — **Kelley R. Beach** has become associated with **Sills, Minton & Co.**, 209 South La Salle St. He was formerly with Paine, Webber, Jackson & Curtis.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—**William A. Migely** and **William G. Harsin** are with **Talcott, Potter & Company**, 231 South La Salle St. Mr. Harsin has been with the U. S. Treasury War Finance Committee. Mr. Migely was with Brailsford & Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—**Henry L. Williams** is with **Brown, Bennett & Johnson**, 39 South La Salle Street.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—**Charles G. Rose**, formerly with **First Securities Co.**, is now with **Central Republic Company**, 209 South La Salle Street.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—**William B. Healy**, who has been engaged in aeronautical engineering tasks on Pratt & Whitney airplane engines for the past few years, has returned to La Salle Street and is now associated with **Comstock & Co.**, 231 South La Salle Street.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill.—**James S. Keenan** and **Howard C. Meadors** have joined the staff of **First Securities Company** of Chicago, 134 South La Salle Street. Mr. Keenan in the past was with Carter H. Harrison & Co. and Winthrop, Mitchell & Co. Mr. Meadors has been serving in the army.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — **Edward A. Leding** is with **Slayton & Company, Inc.**, 135 South La Salle Street.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—**Chester R. Toutloff** has become connected with **Straus & Blosser**, 135 South La Salle Street.

(Special to THE FINANCIAL CHRONICLE)

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—**John N. Faust, Jr.**, has rejoined the staff of **Blair & Co., Inc.**, 135 South La Salle Street, after serving in the U. S. Navy.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—**William L. Graham, Jr.**, has become affiliated with **Clement, Curtis & Co.**, 134 South La Salle Street. He was previously with Mitchell, Hutchins & Co. and Merrill Lynch, Pierce, Fenner & Beane.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—**John J. Crowley** and **Lowell F. Martin**, both of whom have been serving in the U. S. Navy as Lieutenants, have become associated with **Cruttenden & Co.**, 209 South La Salle Street.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — **Alvin E. Rosenbloom** has joined the staff of **Glore, Forgan & Co.**, 135 South La Salle Street, after serving in the U. S. Navy.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—**William E. Fay, Jr.**, has become associated with **Smith, Barney & Co.**, 105 West Adams Street. Prior to serving in the U. S. Navy, Mr. Fay was with Halsey, Stuart & Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — **George R. Wahlquist** has rejoined **Weeden & Co.**, 135 South La Salle Street, after serving in the U. S. Navy.

(Special to THE FINANCIAL CHRONICLE)

ROCKFORD, ILL.—**Lars W. Hoegberg** has been added to the staff of **Conrads & Company**, 321 West State Street.

(Special to THE FINANCIAL CHRONICLE)

ROCKFORD, ILL.—**Mark B. Smith** is with **S. A. Sandeen & Co.**, Talcott Building. He was formerly with the Internal Revenue Bureau.

Miller With Republic Inv.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—Saul R. Miller has become associated with the Republic Investment Company, 231 South La Salle Street. Mr. Miller in the past conducted his own investment business in Chicago.

McDaniel With Otis & Co.

(Special to THE FINANCIAL CHRONICLE)

MINNEAPOLIS, Minn.—Roy W. McDaniel is connected with Otis & Co., Northwestern Bank Building. He was formerly with D. D. Schroeder & Co. and was an officer of Singler & Co.

Arthur Thompson Co. Being Formed in N. Y.

Arthur Thompson & Co. will open offices at 37 Wall Street, New York City, to engage in the investment business. Arthur F. Thompson, Jr., principal of the firm, was formerly an officer of Harvey Fisk & Sons, Inc., and prior thereto conducted his own investment business. In the past he was with C. F. Childs & Co. He has recently been released from the armed forces.

William Stonebridge, formerly of Mabon, & Co., will be in the trading department.

The new firm will do a brokerage business in United States Government securities.

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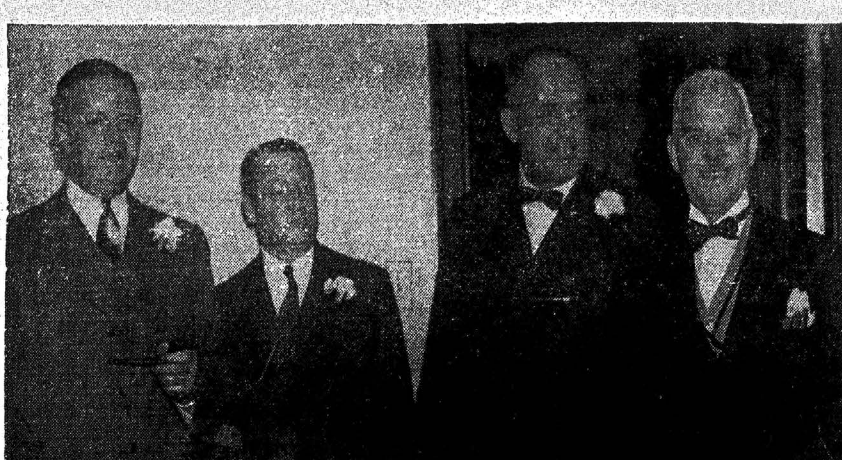

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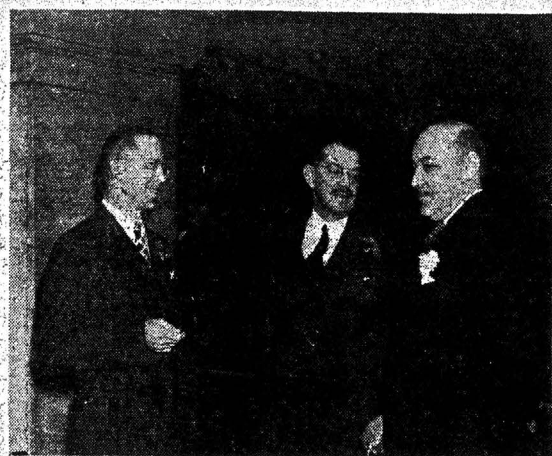

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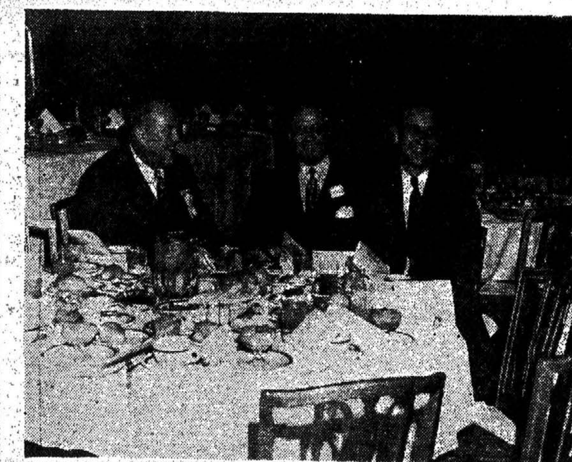

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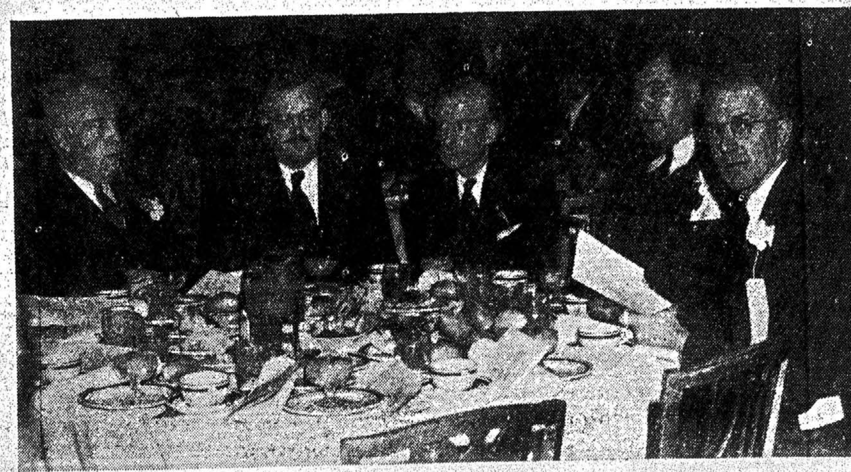

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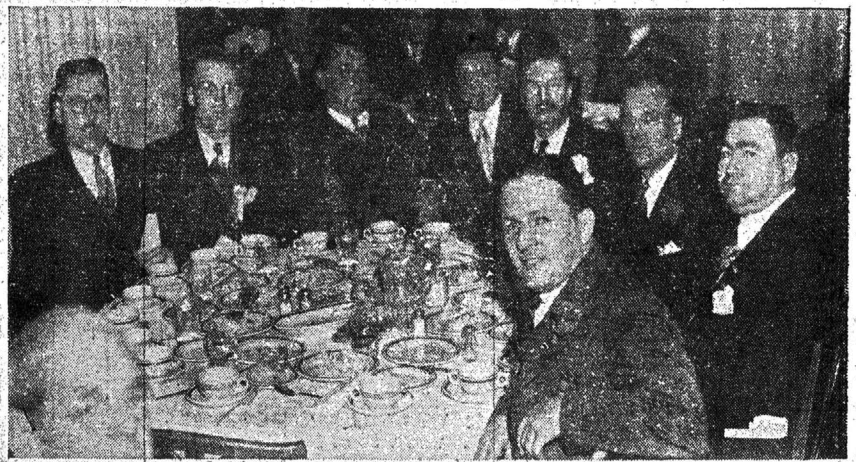
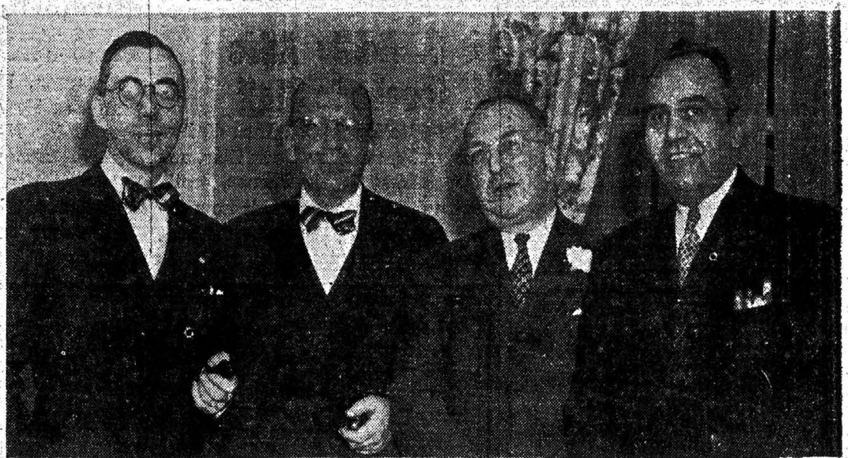


Ed. Coughlin, *Edward J. Coughlin & Co.*; Bill McDonald, *Paul & Co., Inc.*; John F. McLaughlin, *McLaughlin, Reuss & Co.*; Ed. Fitch, *E. M. Fitch & Co.*; Bertram Burbank, *White, Weld & Co.*; Mike Heaney, *Joseph McManus & Co.*; Charles Hartley, *Bankers Trust Co.*

W. Krisam, *Geyer & Co., Inc.*; W. Bastian, *Geyer & Co., Inc.*; Ward Moore, *Chase National Bank*; John Butler, *Geyer & Co., Inc.*

Ed. Christian, *E. H. Rollins & Sons*, Philadelphia; Foster Webster, *Hardy & Co.*; "Cigarettes"; Lou Gibbs, *Laird, Bissell & Meeds*; Abe Strauss, *Strauss Bros.*

Wm. Boggs, *W. H. Bell & Co., N. Y. City*; Chet de Willers, *C. E. de Willers & Co.*; Joseph Sener, *Mackubin, Legg & Co.*, Baltimore; William Z. Suplee, *Suplee, Yeatman & Co.*



Albert J. Caplan, *Bayuk Brothers*; Harold Bayuk, *Bayuk Brothers*; Harold Cunningham, *Kennedy & Co.*; Fred Fischer, *H. N. Nash & Co.*

Broker-Dealer Personnel Items

(Special to THE FINANCIAL CHRONICLE)

ATLANTA, GA.—**Richard G. Taber** is with **Wyatt, Neal & Waggoner**, First National Bank Building. For the past four years Mr. Taber has been serving in the U. S. Navy.

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS.—**Daniel R. Holt** is with **Kidder, Peabody & Co.**, 115 Devonshire Street. He has recently been with the War Department. Prior thereto he was connected with Chace, Whiteside & Co.

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, OHIO—**Ray M. O'Connor** has rejoined **Otis & Co.**, Terminal Tower, after serving in the armed forces.

(Special to THE FINANCIAL CHRONICLE)

DENVER, COLO.—**George Seeman** has rejoined the staff of **Peters, Writer & Christensen, Inc.**, U. S. National Bank Building, after serving in the U. S. Army.

(Special to THE FINANCIAL CHRONICLE)

DETROIT, MICH.—**Hayden R. Brown** has rejoined **Wm. C. Roney & Co.**, Buhl Building.

(Special to THE FINANCIAL CHRONICLE)

HARTFORD, CONN.—**Nicholas E. von Eisen** has become associated with **Fahnestock & Co.**, 75 Pearl St. In the past he was with Tifft Brothers.

(Special to THE FINANCIAL CHRONICLE)

INDIANAPOLIS, IND.—**John S. Hixon** and **Edward Warfel** are with **Slayton & Company, Inc.**, Circle Tower.

(Special to THE FINANCIAL CHRONICLE)

LINCOLN, NEB.—**Joshua P. Simpson** has joined the staff of **Cruttenden & Company**, First National Bank Building, after his return from the armed forces.

(Special to THE FINANCIAL CHRONICLE)

LINCOLN, NEB.—**Lloyd V. Beckwith** is with **E. E. Henkle, Jr., Investment Co.**, Federal Securities Building.

(Special to THE FINANCIAL CHRONICLE)

LINCOLN, NEB.—**John E. Huston** is connected with **Herrick, Waddell & Company, Inc.**, Liberty Street, New York City.

(Special to THE FINANCIAL CHRONICLE)

MIAMI, FLA.—**D. Kirk Gunby** is affiliated with **Cohu & Torrey**, Alfred I. du Pont Building. In the past he was with B. J. Van Ingen & Co.

(Special to THE FINANCIAL CHRONICLE)

MIAMI BEACH, FLA.—**John A. Boardman** and **Roy E. Garnett** are with **Atwill and Company**, 605 Lincoln Road.

(Special to THE FINANCIAL CHRONICLE)

MILWAUKEE, WIS.—**Charles H. Brown** has become associated with **Link, Gorman & Co.**, 110 East Wisconsin Ave.

(Special to THE FINANCIAL CHRONICLE)

MILWAUKEE, WIS.—**Jud W. Strickland, Jr.**, has become affiliated with **Merrill Lynch, Pierce, Fenner & Beane**, 710 North Water Street.

(Special to THE FINANCIAL CHRONICLE)

OMAHA, NEB.—**Ray P. Hiffernan** is now connected with **Cruttenden & Co.**, 204 South 17th St. He was formerly with Harris, Upham & Co.

(Continued on page 1118)

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Real Estate Securities

News of Various Issues

We Hear That

PARK CENTRAL HOTEL (870 7th Avenue Corporation) 4½s of 1957.

The sinking fund operation has been completed resulting in the retirement of $224,650 in bonds by the application of $195,513.25; the issue has been reduced thereby to $3,830,550 from an original amount of $4,074,700.

COURT AND REMSEN BLDG. CORP. 3½s of 1950

The trustee reports that tenders will received until March 12, 1946 in amounts sufficient to exhaust $32,389.19 now available in the sinking fund from earnings for the six month period ended Oct. 31, 1945. For the comparable period in 1945, no monies were available for sinking fund purposes, and for the entire year ended April 30, 1945, only $6,252.25 was provided.

261 FIFTH AVENUE 6s of 1962

The annual interest distribution will be made on Feb. 28 in the amount of $60 per $1000 bond. In addition the sum of $63,317.58 is available for sinking fund purposes, in comparison with the sum of $30,113.91 available at the close of 1944.

SHERRY NETHERLANDS (SHERNETH CORPORATION) 5¾s of 1956

An interest distribution of $30 per $1000 bond will be made on March 1, 1946, for the six month period ended Dec. 31, 1945. In addition $77,877.72 has been set aside for sinking fund application.

40 WALL STREET CORPORATION 5s of 1966

An interest distribution of $25 per $1000 bond will be made on March 1, 1946 for the six month period ended Dec. 31, 1945. In addition $139,955.28 will be available for sinking fund purposes. This sum is about 2½ times the amount available for the preceding six months.

BROADWAY MOTORS (MOTORS REALTY CORPORATION) 4s of 1948

The sinking fund operation has been completed, resulting in the retirement of $106,500 in bonds by the application of practically all of the $102,855.24 available for that purpose. This issue has now been reduced to $2,727,000 from the amount of $4,764,500 outstanding at the time of reorganization in 1936, and the amount of $6,000,000 issued originally.

ALDEN HOTEL CORPORATIONS 4s of 1957

The annual sinking fund operation has been completed, resulting in the redemption of $52,060 in bonds by the expenditure of approximately $46,867.27 available for that purpose. This issue has now been reduced to $2,178,730 from the $2,599,200 outstanding at time of reorganization in 1937.

J. F. Reilly Adds J. Jacobs to Staff

J. F. Reilly & Co., Inc., 40 Exchange Place, New York City, announce that Justin Jacobs, certified public accountant, is now associated with their Investment Research Department.

Edward J. Caughlin Forms Own Inv. Firm

PHILADELPHIA, PA.—Edward J. Caughlin has formed Edward J. Caughlin & Co. with offices at 1420 Walnut Street to transact a general unlisted securities business. He was formerly with W. H. Bell & Co. for many years.

Edward J. Caughlin

New Quarter Century Member of S. F. Exch.

SAN FRANCISCO, CALIF. — Edwin D. Berl received congratulations on his twenty-fifth anniversary as a member of the San Francisco Stock Exchange and on behalf of the membership was presented with a box of cigars by Ronald E. Kaehler, President, during the trading session on the Floor. Mr. Berl, whose father was a charter member of the Exchange, recently took his son, Warren Berl, into partnership, forming the firm of Edwin D. Berl & Son.

Other persons holding memberships in the Exchange for more than a quarter of a century, listed in the order of acquisition, are: Sidney L. Schwartz, Bertram E. Alanson, Frank C. Shaughnessy, Gustav Epstein and George N. Keyston.

Shearson, Hammill Adds Two to Staff

Shearson, Hammill & Co., 14 Wall St., New York City, members of the New York Stock Exchange, announce that Comdr. Robert C. Van Tuyl, U.S.N.R., and First Lieut. Richard D. Donchian, A.U.S., are now associated with the firm.

Our Reporter's Report

Maybe it's hard to believe, but there are some people in the Street who are actually given to cheering the thorough-going correction which has overtaken the equity market.

It certainly means that there may be a slowing down, temporarily at least, in the land-office business which has been going on in new equities. But the more conservative people declare that that is all to the good.

For several months now it has been a case of insatiable demand for anything at any price. A firm had only to be mentioned in connection with a prospective offering and its wires were burned up by potential buyers.

And as the saying goes, it finally got around to the stage where as one observer tersely put it, "the bartenders were drinking their own liquor." In other words people in the business were being carried along with the tide.

Far from being discouraged with the probable effects of the severe reaction (it has carried the industrials down, as measured by the most popular average, for a loss of 22 points from the early February high), they regard it as a blessing in disguise.

They are hopeful that out of it will come a swing away from the mob psychology and a return to reality on the part of people with money to invest. The idea seems to be that from here in people with funds will display a bit more selectivity.

Awaiting the Gun

With the outlook promising prevailing interest and yield rates will hold for a considerable period, banking firms are looking forward to a revival of refinancing operations by some railroads and public utility companies.

Union Pacific Railroad came definitely into the field as a prospective new issuer this week when the road filed with the Interstate Commerce Commission for authority to sell $81,662,000 of new refunding mortgage series C bonds.

Proceeds would be used to refinance an outstanding issue of series B bonds, and it is expected that at least two large syndicates will be toeing the line when the time comes for the opening of bids.

Big Utility Issue Likely

At least one large public utility company shapes up as a likely issuer in the relatively near future, judging by reported formation of investment banking groups to bid on a potential Illinois Power Co. loan.

This company is planning for the replacement of its $64,000,000 of outstanding first mortgage and collateral trust 4s, due 1973.

That issue was sold directly by the company to a group of institutional investors just about two years ago, and it is now expected that the company will go into registration with the SEC for a new refunding issue in the near future, possibly today.

Looking Ahead

Scranton-Spring Brook Water Service Co.'s $23,500,000 of new first mortgage bonds, due 1976, along with 100,000 shares of new $100 par cumulative preferred stock, now looks like one of the largest undertakings likely to reach bidding stage early in March.

The opening of bids is tentatively set for the 12th, though the actual date could naturally be affected somewhat by prevailing market conditions. Several groups will be seeking this deal when bids are opened.

Proceeds with treasury cash and a $2,000,000 bank loan will be used to retire outstanding bonds.

Montreal Rejects Bids

Decision of the City of Montreal to defer its projected financing, involving refunding of $85,980,000 of outstanding bonds, came after a second bid had been received topping the original tender of a New York group by a wide margin.

Cleveland bankers, who offered to pay almost $1.50 a hundred more for the new issue advised the municipality to call for competitive bids, and urged that the offering be made in blocks of no more than $50,000,000 to facilitate the handling of the issue.

While the financing has not been abandoned, it appears that it probably will go over for some little time in order that the whole situation may be resurveyed.

Martin Judge Jr. Is Opening Own Office

SAN FRANCISCO, CALIF.—Martin Judge, Jr., is opening offices at 1 Montgomery St., to act as dealer in securities. Mr. Judge has recently been associated with Hill, Richards & Co. Prior thereto he conducted his own investment business for many years.

Prendergast Fahey Co., New Investment Firm

Prendergast, Fahey & Co., Inc., has been formed with offices at 37 Wall Street, New York City, to engage in the securities business. Officers are Thomas E. Prendergast, President; Thomas J. Fahey, Vice President; John A. Plunket, Treasurer, and John D. Bonnin, Secretary. All were formerly associated with Baker & Co.

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165 Broadway, 4½'s
870 - 7th Ave. 4½'s (Park Central Hotel)
Savoy Plaza 3-6's, '56
Beacon Hotel, 4's

* * *

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Ohio Municipal Comment

By J. AUSTIN WHITE

The stock market decline on Tuesday and Wednesday of last week may well serve to focus attention upon the important bearing which confidence in the future of business now has upon bond prices as well as stock prices—upon prices for long term Government, municipal and corporate bonds. It may not be important that the drop on Tuesday was the largest for a single day since the spring of 1940, when Germany invaded the Low Countries and caused a widespread fear that the Axis nations were soon to win the war. It may not matter much that the declines of Tuesday and Wednesday wiped out about 35% of the rise in the market since August, 1945.

J. Austin White

In fact, the entire action of the stock market last week may not, itself, be worthy of any attention. However, it does seem worthwhile to consider the importance to present day bond prices of that intangible factor of confidence.

Confidence in Money Rate Structure

It seems obvious that there is a widespread feeling of confidence that money rates will not rise in the very near future, at least. Indeed, the only fear one hears today is that rates will go even lower. There is an amazingly widespread willingness among bond buyers to take longer and longer maturities. The market for longest term Treasury, municipal and corporate bonds has risen steadily for weeks (for months in the case of municipals). The ease with which investors are buying these longer and longer maturities at lower and lower yields is, of course, due to the general belief that money rates, if they change at all, are likely to go lower.

There is a desire to get the higher income available on longer maturities, even though it may be only slightly higher than the income obtainable on short maturities. Yet the implimentation of this desire is based upon a general feeling that the bond market is not likely to go lower, and, therefore, one may as well get the higher yield on the longer commitments.

Confidence in Municipal Credit Generally

In the municipal field there is also a widespread confidence in the ability of municipalities to meet their obligations. There is little, if any, thought of the possibility of defaults. It is little short of amazing to note the abandon with which people today buy municipal bonds that some 10 or 12 years ago may have been in default for a year or more. Of course, this "confidence" (we are many times tempted to call it recklessness) in the credit of practically all municipalities is based upon a real confidence that the nation will not again suffer such a terrible debacle as the Great Depression of the Thirties.

Confidence in Business Conditions

There is a widespread feeling of confidence that business conditions in general will be active and "good" for some time yet, the estimates usually ranging from around a couple of years upward. Coupled with this confidence is a general feeling of economic security. No one appears to be concerned today about unemployment problems, relief expenditures, salary or wage reductions or selling merchandise that is available. About the only concern anyone has today is based

(Continued on page 1117)

Ohio Personnels

(Special to THE FINANCIAL CHRONICLE)

CINCINNATI, OHIO—**William F. Ahlers** has become connected with **Horan & Girschy**, Union Trust Building.

(Special to THE FINANCIAL CHRONICLE)

COLUMBUS, OHIO—**Henry Russell Bracken II** has become associated with **Merrill Lynch, Pierce, Fenner & Beane**, 8 East Broad Street, after serving in the armed forces. In the past Mr. Bracken was with Scudder, Stevens & Clark in New York, Arthur B. Treman & Co. and Riter & Co.

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, OHIO—**William M. Edwards** has joined the staff of **The First Cleveland Corporation**, National City Bank Building, after serving in the armed forces.

(Special to THE FINANCIAL CHRONICLE)

CINCINNATI, OHIO — **George T. Grady** has rejoined the staff of **Geo. Eustis & Co.**, 18 East Fourth Street, after serving in the armed forces.

(Special to THE FINANCIAL CHRONICLE)

COLUMBUS, OHIO—**Wilson E. Hoge**, after serving in the armed forces, has become connected with **Fahey, Clark & Co.**, Union Commerce Building, Cleveland, Ohio.

(Special to THE FINANCIAL CHRONICLE)

WOOSTER, OHIO — **Ray King** has joined the staff of **Carl M. Grady**, Peoples Savings & Loan Bank Building. He has recently been in the armed service.

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, OHIO—**Otto J. Kuenhold, Jr.**, has rejoined **Paine, Webber, Jackson & Curtis**, Union Commerce Building, after serving in the armed forces.

(Special to THE FINANCIAL CHRONICLE)

CINCINNATI, OHIO—**Frank G. Kyrlach, Jr.**, has become associated with **Clair S. Hall & Company**, Union Trust Building. For the past 27 years he has been with the Southern Railway System.

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, OHIO—**Edward D. Newton** is affiliated with **Hayden, Miller & Co.**, Union Commerce Building, after serving in the armed forces.

(Special to THE FINANCIAL CHRONICLE)

COLUMBUS, OHIO—**Clarke A. Noles** has become connected with **Vercoe & Co.**, Huntington Bank Building.

(Special to THE FINANCIAL CHRONICLE)

TOLEDO, OHIO—**Park V. Perkins** is now with **Slayton & Company, Inc.**

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, OHIO—**Harmon A. Rudin** has rejoined **Ledogar Horner Company**, Union Commerce Building. He has recently been in the armed services.

(Special to THE FINANCIAL CHRONICLE)

CINCINNATI, OHIO—**Justin J. Stevenson, Jr.**, has rejoined the staff of **W. E. Hutton & Co.**, First National Bank Building, after serving in the armed forces.

(Special to THE FINANCIAL CHRONICLE)

TOLEDO, OHIO — **Wm. G. Sutherland, Jr.** has rejoined **Ryan, Sutherland & Co.**, Ohio Building, after serving in the armed forces.

(Special to THE FINANCIAL CHRONICLE)

CINCINNATI, OHIO — **Donald W. Van Duyn** has joined the staff of **Clair S. Hall & Co.**, Union Trust Building.

Ohio Brevities

Coincident with the announcement that the City of Montreal had rejected the offers made by an American and a Canadian syndicate for respective portions of a $156,480,000 refunding bond issue, it was disclosed that another group, headed by Otis & Co., of Cleveland, subsequently had offered to pay a price of 98.75 for the $85,980,000 portion of the undertaking that was intended for placement in the United States. The offer, however, was contingent on the approval of the Securities and Exchange Commission by Feb. 27, the next interest payment on the outstanding bonds, and therefore did not allow sufficient time for the city to act on the bid.

The Otis & Co. group's tender of 98.75 contrasted with that of 97.2955 named by the syndicate which was originally scheduled to handle the United States underwriting.

In making the offer, Cyrus W. Eaton, head of the Cleveland investment banking house, is said to have advised Montreal officials that an even higher price could be obtained were the city to offer bonds via sealed bids. It was further suggested that the amount to be sold at one time in both the U. S. and Canadian markets be limited to $50,000,000.

Otis & Co., and Halsey, Stuart & Co., it is recalled, have spearheaded the drive in recent years for extension of the competitive bidding principle to corporate financing undertakings in the United States. The Cleveland firm, according to report, was the principal underwriter of nearly $2,000,000,000 in new issue offerings during 1945.

* * *

A syndicate headed by Wm. J. Mericka & Co. of Cleveland, was awarded $610,000 unlimited tax sewer bonds of the City of Lorain Ohio on a bid of 100.56 for 1s.

The bonds, maturing from 1947 to 1961, were reoffered to yield from .45 to .95%.

In the group with Mericka & Co. were Fox, Reusch & Co. of Cincinnati, Commerce Union Bank of Nashville, Tenn., and McDonald, Moore & Co. of Detroit.

The second bid of 100.38, also for 1s, was submitted by Harris Savings & Trust Bank.

* * *

Four Cleveland houses were in the Halsey, Stuart-Otis & Co group which won the $50,000,000 Southern Pacific Railroad first mortgage series F bonds, due 1996, on a bid of 99.52 for 2¾s. The bonds were reoffered at 100. Kuhn, Loeb & Co. was second with 98.41, also for 2¾s.

In the allotments, Otis & Co., received $2,000,000; Field, Richards & Co., $400,000; First Cleveland Corp., $200,000, and Wm. J. Mericka & Co., $150,000.

* * *

Thomas Coughlin, president of the Morris Plan Bank of Cleveland since 1925, told the annual organization meeting that "the year 1946 will give consumer credit its most dynamic role in the history of American business. Upon the ability of consumers to buy on credit and on the promotive efforts of business to sell on credit will hinge the success of America's reconversion program.

"Sound consumer credit helps the economy by enabling consumers to buy goods produced without depleting savings or otherwise weakening their financial positions," he declared. Coughlin was one of the founders and managing officer when the bank was organized in 1916.

* * *

Sales of stock in the Ausic Mining & Reduction Co. of Cobalt Ontario, have been ordered stopped in the State of Ohio by the Ohio Securities Division on the grounds the issue had not been registered with the state division.

Ernest Cornell, head of the division, stated approximately 100 persons in Cleveland had been sold the stock without authorization.

The order was directed to Henry G. Miller of Lyndhurst Ohio, Cleveland suburb, the company's Ohio agent; and to the company and Austin B. Pilliner, an officer.

* * *

S. M. Schultz, Vice-President of the Capital Bank of Cleveland, announced shareholders of the bank recently authorized the increase of capital stock by sale of 5,000 additional shares at $45 per share.

President William Friedman said the stock was heavily oversubscribed and the proceeds of

(Continued on page 1114)

Ohio Municipal Price Index

Date—	*	†	‡	§
Feb. 20, 1946	1.16%	1.30%	1.02%	.28%
Feb. 13	1.17	1.31	1.03	.28
Feb. 6	1.18	1.32	1.04	.28
Jan. 30	1.19	1.33	1.05	.28
Jan. 23	1.22	1.35	1.07	.30
Jan. 16	1.24	1.39	1.09	.30
Dec. 19, 1945	1.29	1.45	1.13	.32
Nov. 14	1.32	1.50	1.15	.35
Oct. 17	1.36	1.54	1.18	.36
Sep. 19	1.38	1.58	1.18	.40
Aug. 17	1.40	1.62	1.17	.45
July 18	1.22	1.42	1.02	.40
June 13	1.21	1.39	1.02	.37
May 16	1.19	1.35	1.02	.33
Apr. 18	1.19	1.34	1.03	.31
Mar. 14	1.27	1.43	1.11	.32
Feb. 14	1.30	1.47	1.14	.33
Jan. 17	1.33	1.49	1.17	.32
Jan. 1, 1945	1.34	1.50	1.18	.32
Jan. 1, 1944	1.41	1.58	1.23	.35
Jan. 1, 1943	1.83	2.01	1.65	.36
Jan. 1, 1942	1.92	2.13	1.70	.43
Jan. 1, 1941	1.88	2.14	1.62	.52
Jan. 1, 1940	2.30	2.58	2.01	.57
Jan. 1, 1939	2.78	3.33	2.24	1.09
Jan. 1, 1938	2.98	3.42	2.55	.87

*Composite index for 20 bonds. †10 lower grade bonds. ‡10 higher grade bonds. §Spread between high grade and lower grade bonds.

Foregoing data compiled by J. A. White & Co., Cincinnati.

Houston a Director

Frank K. Houston, Chairman of the Board of Directors and Chief Executive Officer of the Chemical Bank & Trust Company, has been elected a director of the Hotel Waldorf-Astoria Corporation.

Frank K. Houston

Mr. Houston is also a director of Aetna Insurance Company, Century Indemnity Company, Chemical Safe Deposit Company, Missouri-Kansas-Texas Railroad Company, Piedmont Fire Insurance Company, Louis Sherry Incorporated, Standard Insurance Company of New York, Standard Surety & Casualty Company of New York and World Fire & Marine Insurance Company. He is Chairman of the Clearing House Committee of the New York Clearing House and a member of the Executive Council of the American Bankers Association.

Howard S. Filston with Paul H. Davis & Co.

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, OHIO — Howard S. Filston has become associated with Paul H. Davis & Co., Union Commerce Building. Mr. Filston has recently been in the armed services. Prior thereto he did business in New York City as an individual floor broker on the New York Stock Exchange, was with Sartorius, Engle & Co. and was a partner in Federman & Filston. In the past he was Cleveland manager for Jno. F. Clark & Co. and was in business for himself in Cleveland.

Cleveland Stock Exch. Reelects Guy Prosser

CLEVELAND, OHIO — At the annual meeting of the Cleveland Stock Exchange, Guy W. Prosser was unanimously reelected President of the Exchange.

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Bank and Insurance Stocks

By E. A. VAN DEUSEN

This Week — Insurance Stocks

The 1945 report to stockholders of Security Insurance Company of New Haven has been received recently. This company was established in Connecticut in 1841 as a mutual, but became a stock company in 1873. It heads a fleet of three carriers, the other two being East and West Insurance Co. and Connecticut Indemnity Company.

The insurance business written by the three companies in 1945 reached a new all time peak, and compares with 1944 as follows:

	1944	1945	Increase	
Fire, Marine & Allied Lines	$7,709,562	$8,831,365	$1,121,803	14.6%
Casualty Lines	1,785,178	2,029,465	244,287	13.7
Total	$9,494,740	$10,860,830	$1,366,090	14.4%

Operating results in 1945 for the parent company improved over the previous year, though the heavy fire losses sustained in 1945 caused an underwriting loss. Comparative figures for 1944 and 1945 are given in the accompanying table. These figures, however, are as presented to the stockholders, and will not entirely agree with figures later pubilshed as filed with New York and other states as per "convention" statements.

	1944	1945
Statutory Underwriting Loss	—$192,855	—$230,154
Premium Reserve Equity	163,526	218,674
Net Adj. Underwriting Loss	— $29,329	— $11,480
Net Investment Income	419,270	427,293
Total Net Operating Profits	$389,941	$415,813
Per Share (250,000)	$1.56	$1.67
Dividends	1.40	1.40

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

Item—	Dec. 31, 1944	Dec. 31, 1945	Increase
Unearned Premium Reserves	$6,432,880	$6,979,565	8.5%
Conflagration Reserve	1,574,405	1,501,461	
Surplus	5,000,000	6,000,000	14.1
Capital	2,500,000	2,500,000	--
Liquidating Value	11,647,557	12,793,286	
Per Share	$46.59	$51.18	5.5

Reports of the fire insurance companies for 1945 are being received rather slowly this year, for some unexplained reason. However, it is of interest to quote from Best's Bulletin Service, dated Feb. 25, 1946, as follows:—"The first 26 stock fire companies to file statements show an increase of approximately 10% in net premiums written, unearned premiums, admitted assets and policyholders' surplus. The incurred loss ratio rose just over one point to 57.8%, while expenses were down less than one point to 42.7%, bringing the combined loss and expense ratio to 100.5% as against 99.9% in 1944. Only two companies failed to report an increase in premium production. Ten experienced an improvement in underwriting results."

It may be of interest to state that these 10 companies according to Best's tabulation are:—Aetna Insurance, Central Surety Fire, Charter Oak, Connecticut Fire, Equitable F. & M., Manufacturer's Fire, Phoenix Insurance, Piedmont Fire, State Farm and World Fire & Marine. It will be noted that neither Continental nor Fidelity-Phenix are included, although their underwriting results from 1945 improved over 1944, as shown in this column on Jan. 31, 1946. The reason for their exclusion from Best's current bulletin is that their convention statements have not yet been filed, the only figures available being those reported to stockholders.

Fire losses show no indication of reversing their trend as yet; January losses, as estimated and reported by the National Board of Fire Underwriters, amounted to $49,808,000, an increase of $4,943,-000 or 11%, over January, 1945, and of $320,000 over December, 1945. This latter relation is unusual for in the majority of years December is the month of maximum losses. Over the past 10 years, only in 1940 and 1942 were losses in January higher than in the preceding month of December.

Marketwise, fire insurance stocks this year have been acting very well, up to the recent market reaction. From Jan. 2 to Feb. 6, 1946 they appreciated 8.7%, as measured by Standard & Poor's weekly index, compared with 7.2% for the Dow Jones Industrials. This represents a 21% better gain. It will be interesting to watch their comparative performance when the market resumes its upward primary trend. Since 1918 leading fire insurance stocks have proven remarkably good long-term market performers.

19 N. Y. CITY BANKS
Breakdown of Holdings
U. S. GOV'T BONDS
by maturity categories
Breakdown of Sources
OF GROSS INCOME
Circular on Request
Laird, Bissell & Meeds
Members New York Stock Exchange
120 BROADWAY, NEW YORK 5, N. Y.
Telephone: BArclay 7-3500
Bell Teletype—NY 1-1248-49
(L. A. Gibbs, Manager Trading Department)

First National
Bank & Trust Co.
of
Bridgeport, Conn.
A. M. Kidder & Co.
Members New York Stock Exchange and other leading exchanges
1 WALL ST. NEW YORK 5
Telephone DIgby 4-2525

PRIMARY MARKETS IN
BANK and INSURANCE STOCKS
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INCORPORATED
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NEW YORK 5 — *67 Wall Street* — WHITEHALL 3-0782 — *NY 1-2875*
CHICAGO 4 — *231 S. LaSalle Street* — FRANKLIN 7535 — *CG-105*
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Monetary Committee Elects Officials

The office of the Economists' National Committee on Monetary Policy, 1 Madison Avenue, New York City, announced the list of officers elected for the current year:

Leonard P. Ayres

Dr. Walter E. Spahr

J. W. Bell

Neil Carothers

W. W. Cumberland

Edward A. Moree

President: Dr. Leonard P. Ayres (Brig. Gen., retired), Vice-President, The Cleveland Trust Company.

Executive Vice President and Treasurer: Dr. Walter E. Spahr, Professor of Economics, New York University.

Vice Presidents: Dr. James Washington Bell, Professor of Economics, Northwestern University, Secretary, American Economic Association; Dr. Neil Carothers, Professor of Economics and Dean, Lehigh University.

Assistant Treasurer: Dr. William W. Cumberland, Ladenburg Thalmann & Co., New York, N. Y.

In addition to the officers, who are members of the Committee, Edward A. Moree, Vice-President of the Transportation Association of America, continues as Committee assistant and consultant.

This Committee was organized in November, 1933. The President preceding Dr. Ayres was the late Dr. Edwin W. Kemmerer, of Princeton University.

Weidenbacher Joins Robert Whittaker Co.

PHILADELPHIA, PA.—Robert L. Whittaker & Co., 1420 Walnut Street, members of the Philadelphia Stock Exchange, announce that Richard L. Weidenbacher has become associated with them. Mr. Weidenbacher was formerly Philadelphia representative of Union Securities Corporation and prior to that head of the Philadelphia investment firm of Weidenbacher & Tappan.

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OFFICES IN PRINCIPAL CALIFORNIA CITIES

E. F. Gillespie Is Resuming Business

E. F. Gillespie, former Colonel, Army Air Forces, announces that he is resuming business as President of E. F. Gillespie & Co., Inc. The firm will maintain offices at 67 Wall Street and act as underwriters, participating distributors, dealers and brokers in general market securities. The activities of E. F. Gillespie & Co., Inc., were discontinued in 1940, upon the entry of Mr. Gillespie into the Air Forces.

Col. Gillespie served on the Air War Plans Division of the Air Staff and War Plans Division of the General Staff. He was Air Officer of the U. S. Military Mission to Russia, and inaugurated Air Transport Command activities in the South and Southwest Pacific. More recently he was in command of Air Transport Command at LaGuardia Field and Fort Totten.

Resumption of the firm's investment business was previously reported in the "Chronicle" of Feb. 14th.

Kenneth Henshaw With Edward A. Purcell Co.

Kenneth W. Henshaw, recently discharged from the armed forces, is now associated with Edward A. Purcell & Co., 50 Broadway, New York City, members New York Stock Exchange, in the firm's Investment Research Department. Prior to his entrance into service, Mr. Henshaw was associated with Argus Research Corp.

New York Stock Exchange Weekly Firm Changes

The New York Stock Exchange has announced the following firm changes: The main office of James E. Bennett & Co. will be 141 West Jackson Boulevard, Chicago, Ill.; the office at 30 Broad Street, New York City, will be a branch office in charge of a resident partner.

McGeoch & Wormser was dissolved on Feb. 15th.

John R. Meyer retired from partnership in A. G. Edwards & Sons on Feb. 2nd.

Harold M. Masius, member of the Exchange, will withdraw from partnership in Strauss, Phillips & Co. on March 1st.

Australia and New Zealand
BANK OF
NEW SOUTH WALES
(ESTABLISHED 1817)
Paid-Up Capital £8,780,000
Reserve Fund 6,150,000
Reserve Liability of Prop. 8,780,000
£23,710,000
Aggregate Assets 30th Sept., 1945 £223,163,622
THOMAS BAKER HEFFER, General Manager
Head Office: George Street, SYDNEY
LONDON OFFICES:
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47 Berkeley Square, W. 1
Agency arrangements with Banks throughout the U. S. A.

NATIONAL BANK of INDIA, LIMITED
Bankers to the Government in Kenya Colony and Uganda
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Branches in India, Burma, Ceylon, Kenya Colony and Aden and Zanzibar
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Paid-Up Capital £2,000,000
Reserve Fund £2,200,000
The Bank conducts every description of banking and exchange business
Trusteeships and Executorships also undertaken

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THE TASK OF INSURANCE

THERE is little difference between the tasks and the opportunities of insurance. Keeping pace with progress is an old story to "the industry that protects other industries." Along with the bright promises of modern science, many new and unlooked for hazards will doubtless develop, but science itself has been a potent tool used by property insurance underwriters and the various agencies of public safety.

It seems to me that the accomplishments of American idealism are very closely related to the accomplishments of American business. If that is so there is little to fear in the future if we maintain the same qualities to which our organization was dedicated ninety-three years ago. Any improvements in operating methods which may be required for the good of public service should be welcomed. Providing financial protection to meet the exact requirements of the insuring public must remain foremost in our endeavors.

People of the fire insurance business and of our own organization can look with pride upon the achievements of 1945, the Year of Victory. In common with every American citizen and every American business they were a part of the solid home front behind our victorious fighting men.

This report on the affairs of the company reflects the progress made in a year of national transition from war to peace.

Harold V. Smith
President

STATEMENT
December 31, 1945

ADMITTED ASSETS	
Cash in Office, Banks and Trust Companies	$ 21,252,662.44
United States Government Bonds	43,311,100.25
All Other Bonds and Stocks	93,759,025.46
First Mortgage Loans	180,533.95
Real Estate	3,464,339.81
Agents Balances, less than 90 days due	8,480,590.41
Reinsurance Recoverable on Paid Losses	1,567,724.71
Other Admitted Assets	187,624.54
Total Admitted Assets	$172,203,601.57

LIABILITIES		
Reserve for Unearned Premiums		$ 62,085,749.00
Reserve for Losses		17,528,837.00
Reserve for Taxes		4,299,218.20
Liabilities under Contracts with War Ship Adm.		2,719,717.62
Reserve for Miscellaneous Accounts		435,448.41
Funds Held Under Reinsurance Treaties		67,772.03
Total Liabilities Except Capital		$ 87,136,742.26
General Voluntary Reserve	$10,066,859.31	
Capital	15,000,000.00	
Surplus	60,000,000.00	
Surplus as Regards Policyholders		$85,066,859.31
Total		$172,203,601.57

Note: Bonds carried at $4,414,678.58 amortized value and cash $50,000.00 in the above statement are deposited as required by law. All securities have been valued in accordance with the requirements of the National Association of Insurance Commissioners. Surplus adjusted to reflect Canadian Assets and Liabilities on United States Dollar basis.

Directors

LEWIS L. CLARKE
Banker
CHARLES G. MEYER
The Cord Meyer Company
WILLIAM L. DEBOST
President, Union Dime Savings Bank
WILFRED KURTH
Chairman of the Finance Committee
EDWIN A. BAYLES
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GORDON S. RENTSCHLER
Chairman of the Board, National City Bank of New York
ROBERT GOELET
Real Estate
GEORGE MCANENY
President, Title Guarantee & Trust Co.
GUY CARY
Lawyer
HAROLD V. SMITH
President
HARVEY D. GIBSON
President, Manufacturers Trust Company
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Mutual Funds

Business Success Is Not Easy

Using the latest figures available on United States Treasury Income Tax Returns, **Keystone Co.** presents a chart in the current issue of Keynotes showing corporations reporting net income and those reporting no net income for each year from 1929 to 1942, inclusive.

The picture is startling. The number of profitable companies exceeds the non-profitable companies in only three of this 14-year period. "In 1937," states Keynotes, "which is generally considered a year of good business, six out of ten companies had no net income. Even in 1929, a boom year, four out of ten corporations had no profits."

The report concludes that although business volume promises to be high for several years to come, there will be a heavy percentage of corporations which will lose money.

"Successful investment, therefore, will continue to require (1) careful selection, (2) adequate diversification and (3) experienced supervision."

American Foreign Investing Corp.

The 12th Annual Report of **American Foreign Investing Corp.** for the year ended Dec. 31, 1945 is at hand. During the past five years asset value per share increased $5.58 after payment of dividends of $8.925 or a total of $14.505.

In his letter to stockholders, Robert S. Byfield, President, stated that "should the proposed loan to Great Britain be consummated, an impetus will be given to the gradual resumption of world trade. Through continuous research your management is seeking investment opportunities which may present themselves as a result of this economic activity. It seems possible that there may be more profitable investments in securities of corporations, both domestic and foreign, whose prosperity may be augmented by the reestablishment of world trade rather than in bonds and other securities of foreign governments and municipalities."

Reduction in Sales Load

The **George Putnam Fund** has announced a change in the schedule of sales loads applying to all sales of shares of the Fund effective Feb. 15, 1946. This is the schedule as it now stands: On single sales of less than $25,000 the gross sales load is 7% of offering price; on single sales of $25,000 but less than $50,000 the gross sales load is 5% of offering price; on single sales of $50,000 or more the gross sales load is 4% of offering price.

27 Years and "The Averages"

Calvin Bullock's current Bulletin is devoted to a summary of the Dow-Jones Industrial Average for the 27 years beginning Dec. 31, 1918 to date. Here are some of the interesting points made:

On Dec. 31, 1918, the Dow-Jones Industrial Average (adjusted for changes made in September, 1916) stood at a level 50.2% higher than that prevailing on Dec. 12, 1941, the date on which the New York Stock Exchange reopened following the outbreak of World War I in July of that year.

On Dec. 31, 1945, this Average stood at a level 43.52% higher than that prevailing on Aug. 31, 1939, the date of the outbreak of World War II.

The group of common stocks comprising this Average consists today of the stocks of 30 leading corporations selected as currently representative.

In the 27 years under review over 80 changes have been made in this list of stocks in order to maintain the basic representative value of this index.

Of the years ahead, the Bulletin states the following:

"Having widely diversified investments in securities of leading companies in the country's basic enterprises, and enjoying supervision by an experienced research organization, **Dividend Shares, Inc.** . . . affords investors a medium of participation in a selected cross section of the stock market."

Competent Investment Management

In the current issue of National Notes, **National Securities & Research Corp.** uses a chart to illustrate the 1945 percentage gain in three of the National sponsored funds as compared with that of the Dow-Jones Industrial Average.

Low Priced Common Series outperformed all in the group with an increase of 66.59%, which more than doubled the 31.04% increase of the Dow-Jones Average. Industrial Stocks Series and First Mutual Trust Fund showed increases of 49.27% and 44.66%, respectively.

Inflation or Deflation?

Distributors Group, sponsor of **Group Securities, Inc.** has made available to dealers a folder entitled "Inflation—What It Is . . . How It Affects You . . . What You Can Do About It."

We quote a few excerpts from this timely piece:

"Inflation is a high-sounding word for a simple fact. Inflation is a rise in the level of prices—the prices of all goods and services that you buy. . . .

"A rise in prices, prices of everything you buy, affects you very directly. If your income is a fixed amount and prices double (as they did between 1917 and 1919) your scale of living is cut in half. . . .

"You can protect your scale of living only by placing your savings in the kind of things that will advance in price as the general price level advances. . . .

"Common stocks represent ownerships of goods and services. Of all forms of marketable securities they offer the best assurance of keeping pace with an advance in the price level. However they must be selected with great care. . . . There are many common stocks which offer little or no protection—others that should enable the alert investor to gain during an inflationary period."

Mutual Fund Literature

Broad Street Sales Corp.—Folder on **National Investors Corp.**; current issue of the Letter. . . . **Keystone Co.**—Up to date folders on **Keystodian Funds** K-1, K-2, S-1, S-2, S-3 and S-4. . . . **The George Putnam Fund**—New Prospectus dated Feb. 15, 1946. . . . **Lord, Abbett**—Current issue of Abstracts. . . . **Hare's Ltd.**—Folder on **Aviation Group Shares of Institutional Securities.** . . . **Selected Investments Co.**—Latest issue of "These Things Seemed Important"; memorandum showing diversification of a $10,000 investment in **Selected American Shares** as at Jan. 31, 1946. . . . **National Securities & Research Corp.**—Revised folders on National's **Selected Groups and Income Series**; memorandum giving five-year record of prices and distributions of all National sponsored funds; current issue of Investment Timing entitled "Rising Bank Deposits as a Basis of Inflation."

Dividends

Commonwealth Investment Company—A quarterly dividend of 6¢ a share payable April 1, 1946 to stock of record March 14.

Fundamental Investors, Inc—A quarterly dividend of 22¢ per share payable March 15, 1946 to stockholders of record March 1.

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Prospectus upon request

Putnam Fund Distributors, Inc. 50 State St., Boston

Ralph de Pasquale With Amos Treat & Co.

Ralph de Pasquale, who recently returned after four years in the Army Air Corps, will become associated with Amos Treat & Co. 40 Wall Street, New York City, in their trading department as of March 1, 1946.

He will also head a new department for the purpose of originating special situations suitable for retail distribution.

Until he entered the U. S. Army, Mr. de Pasquale was Manager of the trading department for the dissolved firm of Clark, Kohl & Eyman.

Sproul Reappointed President of New York Reserve Bank

Allan Sproul

Allan Sproul has been reappointed President of the Federal Reserve Bank of New York, his reappointment being for a term of five years, and he has also been reelected to the Open Market Committee. Leslie R. Rounds has been reappointed First Vice-President of the Bank and will also continue to serve as an alternate to Mr. Sproul on the Committee.

The following is the announcement issued Feb. 25 by the Reserve Bank:

"Acting under the provisions of Section 4 of the Federal Reserve Act, as amended by the Banking Act of 1935, the Board of Directors of the Federal Reserve Bank of New York, with the approval of the Board of Governors of the Federal Reserve System, has appointed Allan Sproul to the office of President of the Federal Reserve Bank of New York for a term of five years commencing March 1, 1946, and Leslie R. Rounds to the office of First Vice-President of the Bank for the same period.

"The directors of the Bank have also elected Mr. Sproul as a representative of the Federal Reserve Banks on the Federal Open Market Committee for the year beginning March 1, 1946, and ending Feb. 28, 1947, and have elected Mr. Rounds as an alternate to Mr. Sproul to serve on such Committee during Mr. Sproul's absence.

"The Federal Open Market Committee created by Section 12A of the Federal Reserve Act, as amended, consists of the members of the Board of Governors of the Federal Reserve System and five representatives of the Federal Reserve Banks chosen annually. One of the representatives of the Federal Reserve Banks is elected by the Board of Directors of the Federal Reserve Bank of New York. The other 11 Federal Reserve Banks are divided into four groups, each containing two or three banks, and each group elects a representative to serve on the Committee."

Henry Levey Joins E. H. Rollins Staff

SAN FRANCISCO, CALIF.—Henry J. Levey has become associated with the trading department of E. H. Rollins & Sons, Incorporated, Russ Building. For the past 15 years he has been with Dean Witter & Co.

Hazlett Burt to Admit

WHEELING, W. VA.—As of Feb. 28th, Hazlett, Burt & Watson, Wheeling Steel Corporation Building, members of the New York and Wheeling Stock Exchanges, will admit D. Allan Burt to limited partnership. As of the same date Sterling S. Beardsley, member of the Exchange, will retire from partnership. The firm will continue as members of the New York Stock Exchange, with David A. Burt, Jr., acquiring the Exchange membership of Edward D. Untermyer.

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Federal Reserve Bank of St. Louis

British Government's Dilemma

(Continued from first page)

cuts in dried egg and cooking fat rations assumed first place among topics of conversation and in Parliamentary debates. And while much was said about crop failures, inadequate Government measures to increase home production, and mistaken methods of publicity, the discussion led back every time to the question of Britain's dollar position. As Mr. Dalton declared during the food debate in the House of Commons, it is no longer shipping that is the bottleneck, but foreign exchange.

Most speakers during the debate made reference to the uncertainty of the ratification of the loan. Both the Minister of Food and the Chancellor of the Exchequer uttered warnings that in case of non-ratification it would be necessary to cut down imports and rations. But both of them carefully avoided to specify the measures that are planned for that eventuality. As Mr. Dalton said, the Government has to speak with reserve on this subject, owing to the impending debates on it in Congress.

A few days earlier it looked as though those Ministers who are in favor of taking a firm line would have their way. Well-informed reports in the press foreshadowed early decisions about cuts in the import of American films and tobacco, and paractically the whole Press demanded such cuts in order to make more dollars available for dried eggs and other essential food imports. It looked as though the Government would yield to pressure and to kill two birds with one stone by taking steps that would make American opinion realize the grave consequences of non-ratification or delay in ratification.

The Dilemma

The British Government is indeed confronted with a particularly awkward dilemma. In order to slow down the decline of its foreign exchange reserve it would be necessary to effect drastic steps, in the absence of which much-needed dollars are spent on luxuries. It is feared, however that such steps might throw the ratification of the loan into jeopardy. For instance, dollars could be saved by diverting tobacco purchases from the United States to the Near East, and by importing French films instead of American. But to do so would be discrimination, and even though Britain is not yet legally bound by the terms of the Washington Agreement, it is considered inexpedient to antagonize Congress. The amount of dollars that could be saved would only run into tens of millions, or perhaps hundreds of millions, but the amount that would be lost through non-ratification would run into billions. So the Government reluctantly decided to continue losing smaller amounts in order to improve its chances of securing the larger amount.

This policy is not likely to be continued indefinitely, however. It all depends on how Congress will take over the ratification. According to a pessimistic forecast, the chances of ratification before the Congressional election in November are negligible. It is believed here that unless Congress passes the agreement by the end of March even those Senators and Representatives who are in favor of it would prefer to defer it until after the election. This means that unless the loan is ratified within the next few weeks hopes of its ratification this year will decline here to the vanishing point. Should that happen, the Government will be subject to growing pressure to reconsider its attitude.

Suggested Relief

It has been suggested in some quarters that the International Monetary Fund might provide temporary relief pending the ratification of the loan. There is every reason to believe that the British Treasury will not avail itself of the facilities provided by that institution when they become available, unless and until ratification becomes a certainty. Mr. Dalton declared on several occasions that unless the loan is ratified Britain will have to withdraw from the Fund. Now under the Bretton Woods agreement, one of the conditions of withdrawal would be to repay to the Fund in gold or convertible currencies the amount owed to it. There would be no point in securing dollars from the fund at this stage, since they would have to be repaid if, following on the refusal of ratification, Britain would have to withdraw from the Fund.

It is believed in London that from the point of view of the chances of ratification it would be a false move to obtain dollars from the Fund. One of the reasons why London expects Congress to ratify the loan is the favorable attitude of Congress towards Bretton Woods. If Britain were to make use of the facilities of the Fund before the ratification of the loan this might convey the impression that she is now definitely wedded to the Bretton Woods scheme, ratification or not ratification. And it is feared that this would weaken the inducement for Congress to ratify the loan.

To sum up, the British Government is engaged in a large-scale gamble; it is risking to spend unnecessarily some tens or hundreds millions of dollars, in the hope of gaining some billions. As things are at the moment this is considered a fair gamble. But if the sentiments disclosed by Congress during the early phases of the discussion of the loan should lead to the conclusion that the chances of ratification are not too good then the Government may arrive at the conclusion that a bird in the hand is better than two in the bush.

Effects of Loan Uncertainty

The extent to which the delay in the ratification of the loan agreement, and even more the uncertainty whether or not it will eventually be ratified, hampers British reconstruction is gradually beginning to be realized. Government departments have of course been aware of it for some time. In almost every sphere they are hampered in their efforts to plan ahead. They are unable to take urgent decisions until it becomes clear whether and when the loan will be granted. Every now and again a Minister declares himself to be unable to answer a question addressed to him, on the ground that it depends on the loan. From such isolated answers, and from private conversations with Ministers and senior officials it is possible to piece together the picture of the general situation.

The rate of demobilization itself depends on the loan. Unless the loan is granted, and unless it is granted before Britain runs short of foreign exchange, it will be necessary to speed up demobilization, even though this may mean weakening the occupation armies beyond what the Service Chiefs declared to be the danger point. This will be necessary, partly to speed up civilian production in order to be able to export more and import less, and partly in order to save foreign exchange. According to the Chancellor of the Exchequer, the foreign exchange requirements of the occupation armies is at the rate of $100,000,000 per month. To economize on this amount as a matter of deliberate policy would be extremely short-sighted, for it would mean jeopardizing security, and would in the long run necessitate spending many times more on rearmament. But if Britain's foreign exchange resources run short there can be no choice.

The allocation of manpower, raw materials, fuel, &c. between industries producing for the home markets and for exports is also largely dependent on the ratification of the loan. At this moment British industries are engaged in re-adapting themselves to peacetime requirements. In order to know what to produce it would be essential to know whether the country's policy will aim at an expansion of foreign trade or whether, in the absence of the loan, it will have to aim at the highest possible degree of self-sufficiency. If the plans are based on the wrong assumption then a second readjustment may become necessary, involving additional capital expenditure and delay, which Britain can ill afford just now.

The exporting industries themselves are in the dark whether they should concentrate on Sterling Area markets or on other markets. It all depends on the loan. The requirements of bilateral trade and of regional trade are different from those of multilateral trade, and exporters have no means of knowing for which to prepare.

Agricultural policy, too, is in suspense. If it were certain that the loan is rejected the Government would restore the costly subsidies in order to increase acreage to the utmost limit of possibility, and to induce farmers to produce the right kinds of crops. As it is, the measures are delayed so long as there is a hope of obtaining the loan within a reasonable time.

The drafting of the budget for 1945-46, which will have to be completed within the next six weeks or so, is no easy matter. The Treasury does not know whether to budget for tobacco duties at the present rate, or whether it should allow for a substantial reduction as a result of the necessity of cutting tobacco imports in the absence of the loan. Other revenue and expenditure items are also bound to be affected.

Most Government Departments affected by the delay have resorted to a dual system of planning. They elaborate Plan "A" based on the assumption that the loan will be granted, and Plan "B" based on the assumption that it will not be granted. This entails of course much additional work to the grossly overworked officials, especially since Plan "B" has to be adjusted constantly as a result of the ever-changing situation.

The idea of the loan was never very popular among the British public; it is becoming increasingly unpopular through the delay in the ratification, and through the realization of the difficulties caused by the uncertainty. A by no means inconsiderable section of the public would actually welcome an immediate rejection which would at any rate enable the Government and the country to know where it is and to act accordingly. The Government appears to underestimate this feeling, and fails to realize the degree of willingness to make a supreme effort to enable Britain to work out her own salvation.

Left-wing circles are particularly hoping that the loan would be rejected, on the assumption that this would lead to a complete reorientation of British foreign policy. Since in the absence of foreign exchange resources Britain would not be in a position to maintain on the continent sufficient forces to prevent a general Leftward swing of the countries of Central and Western Europe, there is a possibility that in the circumstances the Government would acknowledge Russian supremacy on the continent and would seek to come to terms with the Soviet Government. This would be all the more likely as the measures to achieve self-sufficiency would lead to a high degree of economic control on Socialist lines, and would therefore bring the British economic system nearer to that of a Socialist state.

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Railroad Securities

There has been a wide divergence of opinion among students of railroad securities as to the probable trend of security prices over the next few months. As to the longer term prospects there is at least a fair degree of unanimity on the bullish side. There is every evidence of an industrial boom lasting a number of years, and of sufficient breadth to assure the railroads as a whole of record peace time traffic and revenue levels. There is general confidence that the railroads will be given increased rates to offset at least in part the increased costs that have already been assumed and the further rise in wages looked for over the next few months. Under such conditions there appears to be little qestion but that at least the vast majority of roads will be able to report earnings sufficiently high to support considerably higher stock prices than those recently prevailing.

While the general outlook for the next few years is viewed as highly favorable there are a number of important uncertainties in the shorter term picture. Traditionally railroads are slow to bring expenses under control during an interval of falling traffic. There is ample evidence that this pattern will be maintained in the present instance. In fact it has already been demonstrated. Particularly in the case of transportation costs, economies in the closing months of 1945 fell rapidly behind the pace of traffic and revenue declines. Moreover, a certain amount of deferred maintenace has been built up and as the railroads generally are liberally supplied with cash there will be little incentive to curtail budgets sharply just because of the relatively modest drop in traffic.

In the post-war period to date the actual decline in railroad earnings has been more or less obscured by external distortions. The chief of these have been the charging off at an accelerated pace of amortization of defense projects and income tax adjustments. The I.C.C. has ruled that any railroad wishing to take advantage of the acceleration had to put the entire charge through the income account in the last four months of the year 1945. There has been a tendency on the part of many speculators and investors to disregard reported earnings, therefore, and assume that the entire decline in earnings has been attributable to the distortions of extraordinary charges.

Now that a new year has begun there will not be the factor of extraordinary charges with which to excuse the drop in earnings if the decline continues. That the declining trend of earnings before Federal income taxes will continue seems fairly certain, particularly in the light of the disruption of reconversion programs by continued industrial strife. The other unfavorable aspect in the near term railroad picture is the impending wage increase. With respect to most of the unions the question is now in arbitration with the decision to be binding on both parties. It is natural to expect that the eventual award will be pretty well in line with the general policies of the Administration in recent wage disagreements. This would indicate the likelihood of a considerably larger increase than had originally been looked for.

Over a long period of years the railroads have displayed exceptional ability to absorb successive wage increases so that the prospective further rise is not in itself taken as too serious a threat to future earning power. Moreover, it is believed that the Interstate Commerce Commission will look kindly on an application for offsetting rate increases which will presumably be filed as soon as the wage arbitration results are known. This is not much of a help for near term earnings, however. Any wage increases granted will be retroactive to the beginning of 1946. Any sizable increase in rates will come only after lengthy hearings and the examination of voluminous evidence and statistics. Based on past history in rate cases it is difficult to see how any rate increases could be made effective at least until well along towards the end of the year. Rail earnings this year seem inevitably slated to be very substantially below the levels of 1945 and this may have a further adverse influence on the market action of the equities.

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A Tax Program for A Working America

(Continued from page 1088)

ment didn't think it could quite get out of the way. It thought it had to control prices a bit. It concluded that labor ought to get a bit more money. It wasn't sure that governmental services should be cut down to peacetime dimensions. It was frightened of inflation in commodity prices, but it didn't quite want to balance the budget or to start to pay off the debt or even to convert the debt, as a businessman would, into long-term obligations. So the debt and labor policies encouraged inflationary movements much more serious than price controls retarded.

Importance of Tax System

To analyze these matters that are fundamental in fiscal policy would take more time than I have. My assignment is to sketch the tax outlook. Nevertheless, you must remember that the Federal tax system is **not** an independent entity. What is done about governmental expenditures and the policy about the public debt are, of course, fundamental in determining what the revenue system shall be. Again, the form and structure of the revenue system, with the high rates which must be employed, will greatly affect and may well determine the vigor and the course of American industry during the next decade.

We have finally learned, I think, that a tax system is not a simple set of spigots manipulated by Congress and the Treasury to produce the flow of revenue the Government requires. Such a metaphor does not bring out at all the tremendous effects of the Federal tax system, primarily in discouraging various forms of business activity and even of family arrangements; secondarily in encouraging some forms of activity more than others. During this last war, we developed the revenue-producing potentialities of the system practically to the full; the valves on the spigots were held practically wide open. It is very unlikely that our enterprise system could function very long or very well in times of peace, if the governmental drain from individuals and industries was to continue at anything like the same rate.

The first step in putting the Federal revenue system on a peace footing, the Revenue Act of 1945, was excellent. For once, our accomplishments in tax legislation ran ahead of our accomplishments in other directions. First, it was wise to repeal the excess tax at once. That tax was not only a war measure, primarily designed to drain off war profits, but it operated quite unfairly as between competing businesses. It acted as a damper on new corporations and on rapidly growing corporations. Hence, it was good statesmanship to clear the tax off the books promptly ofter the termination of the war.

The slight reductions in individual and corporate tax rates generally applicable were a necessary and just accompaniment of the excess profits tax repealer. The reductions could not be great, for the Federal expenditures and debt are still tremendous. The corporate tax rate is still about three times what it was only ten years ago and more than 50% higher than it was five years ago. Individual rates, too, are far higher than they were before the war. Nevertheless, both individuals and corporations needed the bit of encouragement and incentive to produce that the transition act gave them. It was a well-timed and well-executed move.

Prior to the adoption of the 1945 Act, the tacitly understood plan was to formulate and adopt a thoroughgoing revision of the revenue laws in 1946. The Treasury and the Congressional staffs conducted many hearings and conferences looking toward the preparation of the long-awaited peacetime tax bill that could remain in effect permanently, that is, for at least two or three years. Today, the likelihood of the adoption of such a bill in 1946 seems much less than it did in 1945. It now seems likely that a revision of the excise and sales taxes will be about all the revenue revision for 1946. Nevertheless, more general tax revision must come one of these days, and we shall do well to consider what its aims and purposes should be. If we know what we want to accomplish, we have the wit to set up the specific provisions to accomplish our ends.

Has there been any great change in the fundamental aspirations we had at the end of the war? We still want active and expanding industry and full employment. We want to see produced all the good things we have been told about. We want automobiles, fast air transportation, more products of light metals, more plastics, more fresh and frozen foods. We want a high standard of living, as well as the individual liberty that has always characterized this country. Production is the main thing; industry advancing into the new fields of endeavor that wartime invention has opened up; capital and labor actively employed in turning out all the goods we want and need and have the money to pay for. If business is active, there will be full employment and there will be good incomes. But we certainly can't have good incomes, no matter what the rates of pay, unless we are producing.

Defects of Present System

The tax system cannot bring about these aspirations, but it can so operate as to hinder or defeat them. What aspects of the tax structure, over the long run, need examination? I shall not discuss the system as a whole, but merely three major items that deserve your thoughtful attention.

1. If we want business to expand, it must take risks. A helicopter may be the commuting train of the future, or it may be a toy for the few. To find out, someone must take chances, risk capital, and produce. At present, the tax

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(Continued from page 1106)

system does not encourage risk capital or equity investment. Rather it encourages debt obligations. The corporation that finances with bonds or debentures has a deduction for the interest it pays. If it finances with stock, it gets no deduction at all for dividends thereon. But the bondholder and the stockholder are taxed just alike on the interest or dividend return from the investment. Hence the investor is encouraged by the tax law to seek the legally more secure bond or debenture or note, rather than the legally less secure common or preferred stock. The corporation has an important tax incentive to financing by bonds or debentures or notes rather than by stock.

To put the point another way, there is a double tax on income distributed as dividends, a single tax on interest and other forms of income. Hence, if we deem it important not to discourage risk capital, we should take steps to eliminate the double tax on dividends; and thus to remove the tax subsidy to corporations financing with debt.

Treasury officials and other tax students are pretty well agreed that the double tax should be eliminated. The disagreement is only on the best way to accomplish it. In such a case, legislation ought to follow reasonably soon. The simplest way to accomplish the desired result is to give the individual stockholder a credit for some or all of the taxes the corporation has paid on the dividends distributed to him; to treat the corporation income tax like a tax on the dividends withheld at the source.

2. Much of the business in this country is owned and operated by individuals. Corporations, however great they may be, are run by individuals too. The incentive to open up new branches or new lines, to enter new fields, to build a new plant and thereby to produce more goods and to employ more men is an individual incentive.

Under the pressure of war, we have set the surtax rates so high that the individual incentive to work harder and to employ more men is pretty effectively discouraged. More than 60% (61.75%) of a man's surtax net income in the bracket next above $32,000 goes to the Treasury; more than 70% (71.25%) of his surtax net income in the bracket next above $50,000; and not quite 85% (84.55%) of his surtax net income in the next bracket over $100,000. These are large incomes; but large enterprises are and must be operated by executives who receive such amounts. Whatever justification may be cited for such rates, it is clear that they discourage men from taking new risks, from expanding their activities; and encourage them to take more time off and to retire earlier. This country was not made great by men who worked short days and who took long vacations.

If we really want to encourage individuals to work, to expand their businesses, to take on more men, would it not be wise to restore to the law some form of reduction in the tax on earned incomes generally? Would it not also be wise to put some ceiling on the total amount of a man's earned income which must be paid in taxes, say 50%?

3. We have been told that part of the difficulty in reviving business abroad is attributable to obsolescent plants and machinery. By contrast, our own success in production has often been attributed to our willingness to install new machinery even before the old was worn out; and our willingness to spend money on research and experiment. In recent years, the Bureau of Internal Revenue has sought to ride depreciation allowances with a very tight rein, and to compel the capitalization of development costs whenever possible, rather than to permit current deductions. The taxpayer's depreciation rates, in particular, are frequently upset in favor of lower rates arrived at after prolonged debate and controversy. No doubt high tax rates, as well as the use of unskilled labor, and around-the-clock operation have all contributed to managements' desire to depreciate machinery relatively quickly. Nevertheless, no machine can be depreciated more than 100%; and taxwise, rapid depreciation has proved unprofitable to corporations in perhaps as many cases as it has proved profitable.

Since in general it is desirable to encourage management to keep plants up-to-date, could not depreciation rates and methods safely be left to management, subject to the usual check of independent auditors? Certainly the Bureau would be wise in accepting management's decisions more frequently than it does.

The items I have mentioned would produce some loss of revenue, not much, but some. Can we afford it? I believe so, for I think the over-all economic gains in greater business activity and increased employment would more than balance any loss. But a conservative and realistic Secretary of the Treasury will not readily accept my assurances, which he hears every day in support of every new proposal for tax reduction. He has before him the latest budget showing anticipated net expenditures of over $35 billions, against net estimated receipts of $31.5 billions. The debt is now $275 billions. The President has made no recommendations for tax reductions. He could hardly make them, in the face of the proposed volume of expenditures.

Need of Balanced Budget

Expenditures and more particularly control over expenditures are the key to sensible fiscal policy in this country. We have not balanced the Federal budget since fiscal 1930. We have had 16 straight years of deficits and the President proposes a seventeenth. The budget has been unbalanced with expenditures of $3.6 billions (1931); of $8.1 billions (1937); and of $100.4 billions in 1945. Our fiscal period is not very good. During the last 16 years, we have not paid our way no matter how low or how high governmental costs were. How, then, can the citizen have complete faith that the nation's fiscal house will be put in order; and the dollar retain its current value in terms of commodities?

Unless the budget can be brought down to a much lower level, say $20 billions, the hope of substantial tax reduction is illusory. There is no real hope of substantial tax reduction with a $25 billion Federal budget, much less with the $35 billion budget the President has outlined. On the contrary, we must have great business activity and must continue to impose nearly all our present taxes, if the budget is to be balanced. There is very little leeway for the off year. Such a fiscal prospect is dismal for business and the citizen alike. We can avoid it only if we determine that expenditures must be brought down and kept under rigorous control; that our representatives in Congress must exercise unusual prudence and restraint in the case of the very many appealing but unnecessary proposals for expenditures which will be made to them. With rigorous control of expenditures, our fiscal house can be ordered and we can also have the tax relief which will be needed if our American way of life is to function effectively.

The major points of sound fiscal policy that I would emphasize, in conclusion, are few and simple. Vigorous private enterprise is essential to the American way of life as we have known it. A sound tax and fiscal system is essential to an active and healthy economy. The Federal budget should be balanced in a year of normal business activity. The key to a balanced budget is careful control over expenditures. If expenditures are kept under reasonable control, taxes need not be excessive, though they will be higher than we knew in the thirties. Many more citizens will have to pay Federal taxes than paid them during the twenties and thirties, but the wartime rates can be considerably reduced if we watch expenditures. That is the essential condition to Federal fiscal health, on which our economic health so greatly depends.

British Banking Sums Up Economic Position

(Continued from page 1090)

⅝% in the case of Treasury Deposit Receipt loans—was, therefore, a serious matter for the banks, and to compensate for this reduction in income, they had in turn to lower the rates of many of the time deposits held with them by their customers.

Mr. Colin Campbell, the Chairman of National Provincial Bank—who received a Peerage at the New Year—revealed that the reduction in time deposit rates only in fact offset the reduction in the rates earned by the banks on their short-term loans to the Government. He also mentioned that in spite of the war-time increase in operating costs, the community was obtaining banking services at charges no heavier than in prewar days. He alluded to the Government's efforts to reduce yields on medium and long-term securities as an interesting experiment. He hoped that the task would be successfully accomplished "with equitable treatment of the investor," and added the warning that the pace should not be forced.

The American Loan

The American loan was regarded by most bankers as a necessity. Mr. Beckett, the Westminister Bank Chairman, summed up the proposals as being on the right lines. Failure, he said, would have meant economic war between the dollar and sterling blocs, and we also could not have expected the sterling area countries to continue extending credit to Britain indefinitely. Mr. Beckett was also in broad agreement with the Bretton Woods Final Act. He said, with Sir John Anderson, that "it does not involve any return to the gold standard. In fact it does not involve any return to anything." It is, added Mr. Beckett, a new and original essay to solve an old and obstinate problem.

Mr. Beckett also spoke on the future of Imperial Preference, with particular reference to the forthcoming International Trade Organization meetings. He said: "There are some people who aver that under the present plans we are sounding the death knell of Imperial unity. But ties of blood and intimate long-founded trade relationships are not so easily disrupted. It is true that Imperial Preference will come up for consideration at the projected Trade Conference, with a view to its reduction, but only in conjunction with other forms of trade restriction and discrimination. A process of bargaining is to be initiated between members and only arrangements which are considered mutually satisfactory will become effective. No one will be expected to modify a preference or reduce a tariff except for a **quid pro quo.** The aim is, of course, to secure a general elimination or mitigation of the obstructionist effects of trade barriers, and if Imperial Preference makes some sacrifice in this direction, compensation should be forthcoming to the Empire and to ourselves by way of freer access to the vast American and other markets."

British Domestic Politics

As regard home political questions, most of the bankers were guarded in their utterances. They were disposed to accept the nationalization of the Bank of England as a **fait accompli.**

On the future of industry, Lord Linlithgow looked for growing cooperation between Government and representative organs of industry, trade and finance. Mr. Colin Campbell instanced industry's need for more coal and manpower. Obstacles to reconversion should be removed, and every practicable mechanical aid to higher production and lower costs should be used.

The bankers' view is one of tempered optimism. They recognize the difficulties ahead, without surrendering their faith in Britain's powers of recovery. And if on certain points of policy they differ both between themselves, and even with the Government, the result is welcome, for it means an addition to the nation's fund of economic information.

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Canadian Securities

By BRUCE WILLIAMS

Coal and Wheat versus Communism and Totalitarianism. The vital problem of Europe today is the desperate need for increasing supplies of food and fuel. Cold and undernourishment is breeding desperation and political extremism. France is basically individualistic but its primary shortage of coal for fuel and power is a powerful factor in favor of increased communistic strength in the forthcoming elections. Belgium on the other hand, better supplied with food and fuel has taken a significant turn to the Right.

Is there any practical solution? Britain was previously an important exporter of coal to Europe but now faces the same problem of underproduction. The German mines as everywhere lack willing labor and the domestic demands of this country permit little leeway for export.

In this desperate situation Canada's unique position as one of the world's leading producers of primary goods, in conjunction with a disproportionately low domestic consumption offers some ray of hope. Alberta alone has some 17,000 square miles of coal deposits and in Northern British Columbia an excellent quality of coal is found in the form of outcrops. The same area also comprises one of the most fertile sections of the Dominion and could contribute largely in boosting the Canadian production of wheat.

Canada, despite its mere 12 million population has performed many herculean tasks and as the highest per capita exporter in the world is well fitted to meet this urgent world need. If extra labor is necessary in considerable volume it will only help to solve Canada's handicap of under-population.

During the past week there was some indication of market tiredness with Nationals showing an inclination to ease on increased offerings. Albertas and Montreals on the other hand went against the tide and registered fresh gains following the report of the rejection by the City of Montreal of the prices offered by two syndicates in this country for the proposed $85,980,000 refunding issue.

Internal issues were weaker and there was a greater supply of funds in the free market. The recent cancellation by the Foreign Exchange Control Board of the privilege of registration of bonds purchased in Canada for resale in Canada has given rise to some confusion in this market. It would appear that the situation is as follows:

(1) Bonds that have been imported into this country and have already been recorded by the Foreign Exchange Control Board can be sold outright in Canada and the Canadian dollar proceeds can be sold in the free market. This would also cover the case where bonds have been bought in Canada and left on deposit there. There is also little doubt that the registration rights are transferable.

(2) Unregistered bonds which comprise the bulk of the holdings in this country can only be sold here.

Thus the registered bond has two advantages over the unregistered. It enjoys the benefit of the broad Canadian domestic market and the exchange risk is limited to the variations of the market for free Canadian funds. There is little doubt that owing to the comparatively small volume of registered bonds in this country the pressure on the free market was considerably reduced during the recent wave of internal bond liquidation. In the event of an important selling movement it is likely that offerings of unregistered bonds will have a sympathetic influence on the registered. The establishment of a wide differential between the two categories could lead to selling of registered and the purchase of unregistered bonds.

With regard to future prospects the consolidation of the existing high level is likely to continue with no marked movement in either direction. Montreals and Albertas, however, still appear to have some scope for further improvement.

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Canada May Give Credit To United Kingdom

The extension of a large credit to the United Kingdom will be considered at the forthcoming session of the Dominion Parliament, scheduled to open March 14, according to the Feb. 22 business summary of the Bank of Montreal. Unofficial reports state that the proposed credit may total $1,500,000,000, with a part of this amount representing extensions of loans already made.

Meanwhile, there have been two additions to the total foreign loans made under the Export Credits Insurance Act, the Bank reports. China has been granted a loan of $60,000,000, to be used in 1946 and 1947, and repayable over 30 years, commencing in 1948, with interest at 3%. The Netherlands, which has already spent in Canada the $25,000,000 credit received last May, has now been granted a further $100,000,000 credit to be used before May 1, 1947.

The Bank also states:

"Under a policy described by the Prime Minister as 'the first step in a deliberate and carefully considered plan working toward the eventual removal of price and wage controls,' the Canadian Wartime Prices and Trade Board has provisionally suspended, as from Feb. 1, the price ceiling on approximately 300 non-staple goods and services, both imported and domestic. Leading merchants, it is stated, have announced their intention to cooperate in the prevention of any substantial price rise as a result of the Government's action."

R. J. Edwards Opens Branch in San Antonio

SAN ANTONIO, TEX.—R. J. Edwards, Inc., Oklahoma City investment house, has opened a branch office in the Frost National Bank Building, under the management of E. M. Clohessy, Vice-President of the firm.

Our Outlook for World Trade

(Continued from page 1089)

world trade as one way of helping solve our domestic problem. All the world is interested in foreign trade. In some nations foreign trade is regarded as so important that it takes precedence over internal trade. Sir Stafford Cripps recently said that the English people would have to get along without new automobiles so that England would have cars to export. In a series of speeches he has stressed the necessity for continuing the "austerity standards" of war-time, and has called on the people to further tighten their belts. Exports come first in their postwar industrial program, and must be increased by at least 50% over prewar volume.

Canada is also vitally interested in foreign trade. It has built up a greater productive capacity than is required for normal peacetime home consumption. To maintain full production, full employment and high wages, it must export and do so in greater volume than ever before. Canada's position is somewhat like ours—with this difference—that its export trade is a larger percentage of her total trade.

Underrated Importance of Exports

The part that exports play in our domestic economy is sometimes belittled by those of narrow vision who do not take the time or trouble to study the problem. It is true that exports have accounted for from 7 to 10% only of our total output of movable goods. However, let us consider certain commodities as examples. We find that normally we export from 30 to over 60% of our total production of cotton. It is the principal crop in the South and Southwest. It is grown on about one-fourth of the nation's farms, and more than 40% of the total farm population of the nation lives in these cotton states. More than 30% of all tobacco grown in the country is exported. Over 30% of our production of canned sardines, dried prunes, lubricating oil, refined copper and sewing machines enter export markets. There is a growing dependence of the mass production industries upon export trade, and just before the war more than 20% of various types of industrial machinery was being exported. Export trade reaches into every nook and cranny of this broad land and contributes to the economic well-being of all—industry, agriculture, transportation and distribution—rich man, poor man, beggar man, thief.

A rise in the ratio of our foreign trade to domestic trade has invariably resulted in a rise in employment and an improvement in domestic business conditions, and these trends have been downward when this ratio has fallen.

It is conservatively estimated that with a foreign trade of ten billion dollars a year—we have been doing considerable more than that for several years—and this is a conservative estimate for the future—such trade would provide about 5,000,000 jobs, and probably many more jobs indirectly dependent upon such trade. Consider the state of our prosperity when in the 30's we had from five to ten million people unemployed. What a blow it was to our economy. What a blow it would be to our system of domestic marketing and distribution if 5,000,000 or more of our workers now engaged in production based on foreign trade should become unemployed.

In the formulation of postwar policies our national government is laying great stress upon foreign trade. It looms large upon the horizon. It has been the subject of consideration in many recent international conferences. The Bretton Woods Agreement with its International Bank and Stabilization Fund is designed to furnish the stability in exchange without which world trade cannot prosper, no matter how many willing buyers and willing sellers you may have. There must be both the ability and the freedom to convert the proceeds from the sale of exports into the currency of the selling country, or foreign trade will be reduced to a bilateral bartering arrangement.

Congress has re-enacted the Reciprocal Trade Agreements Act which should permit our Government through negotiations with other nations to materially reduce the tariff and other trade barriers and restrictions that have been built up and created by so many countries in recent years.

The United Nations Organization has created as one of its coordinate branches a Social and Economic Council, designed to smooth the pathway for a greater international trade.

The World Conference on Air Transportation at Chicago was a long step in the direction of the establishment of a great system of world transportation by air. Additional and faster methods of communication between nations lead to better understanding between peoples and greater and accelerated trade. The airplane may well open up hitherto inaccessible lands and riches, create new towns and industries, introduce new commodities to the world's markets and generally quicken the flow of foreign commerce.

Leadership in rebuilding a world economy and in removing or lowering the barriers to trade is being taken by the United States. This is our responsibility because we have by far the largest industrial capacity to produce the goods which the world so urgently needs, and also the greatest purchasing power with which to buy the goods of other nations. We also must be the principal source of the investment funds required for rehabilitation, reconstruction, or for new plants or enterprises.

Leading U. S. Contributions to World Trade

The two greatest contributions that the United States can make in the near future to "Our World Trade Outlook" are these: first, restore production—produce the wealth, the goods that we so greatly need at home, and for which the whole world is in such dire need; and second, ratify the financial agreement with the United Kingdom which provides for a three and three-quarter billion dollar line of credit. Production is the only antidote to high prices and inflation. It is the only means whereby we may have high wages and happiness. Ratification of the British agreement would be a major step in the restoration of world commerce, and in the elimination of state direction and control of business. It will enable Britain to buy the raw materials that are so essential to the resumption of production by her factories of goods both for home use and for export. Before the war she was the world's largest customer and our largest customer. She needs food or dollars with which to buy food—until her export trade, so greatly diminished during the war, shall have been restored. She is

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a good customer, a good neighbor, temporarily embarrassed by unparalled war losses, and we can help her to regain normal commercial health. No good business man would do less for a good customer. Full employment with high wages and a rising standard of living in the United States will best be promoted by a multilateral system of world trade in which Britain is a participant. Without this credit there is danger that the world will continue its war-created system of government controlled economic blocs with resulting economic chaos and warfare. This we should avoid at all hazards.

The Board of Directors of the Chamber of Commerce of the United States recently issued a statement urging approval of the financial agreement with Britain. The board expressed the conviction that the proposed credit and related understanding respecting commercial policies would be to the advantage of the United States, that no other program offers equal asurance of an expansion of world trade on a multilateral and non-discriminatory basis, and that the alternative is extensive and harmful economic warfare among rival groups of nations.

The United Kingdom on its part pledges removal of controls and barriers which now hinder an expansion of United States foreign trade. These pledges which are of the greatest significance include the elimination within one year of the sterling area dollar pool and an agreement that payments or transfers on permitted American imports into the United Kingdom and on other current transactions shall be free from restrictions. They agree to join with us in effecting the gradual reduction or elimination of trade preferences—including Empire preferences—and other export and import controls. Without this credit the United Kingdom will be forced to strengthen sterling area controls and Empire tariff preferences, and all prospects disappear for putting into successful operation the International Monetary Fund and the International Bank for Reconstruction and Development.

The Department of State has prepared extensive proposals for the expansion of world trade and employment. Some fourteen countries have been invited to send delegates to Washington for a preliminary discussion of these proposals so that they may be presented to a World Conference on Trade and Employment which is scheduled to take place before the end of the year. This is a part of the program coming out of the financial agreement between the United Kingdom and the United States.

Must Have More Imports

In looking over your program I have noted with interest that you devote one whole afternoon to discussion of such questions as Advertising and Sales Promotion, Personnel in Distribution and Consumer Relations. I acknowledge the importance of these questions. With the scarcity in goods which has prevailed for several years, salesmanship has almost become a lost art. Goods have sold themselves. It has been essentially a seller's market and there is undoubtedly a yawning gap in your sales organization where during the war years salesmen have not been educated or developed. I think there is a great opportunity for the returning veteran to devote himself to learning salesmanship because in due course there will be high demand for his services. I do not see any reference in your program to **Buyers**,—I repeat Buyers. Our outlook in world trade is going to improve if the marketing and distribution agencies in America have keen and intelligent buyers. They are going to be more important in the near future in developing our World Trade than are your salesmen. The world is ready to buy our goods, but how can they pay for them? They can only pay for them with exports or loans. We tried the loan game after the last war with rather disastrous consequences to both the borrower and the lender, and we must move with caution in repeating that performance. The principal reason why this method failed was because the loans were generally made to Governments for purposes which in many cases were unproductive and not self-sustaining. There is a broad field for the development of foreign trade through the placement of sound private loans and the investment of private venture capital. We must be willing to receive imports, to import and prosper. How can we impoverish ourselves by taking the products of other nations, when by so doing we enable the other fellow to buy our goods and thus keep our factories going? We need trained buyers to go out into the world's marts of trade to find the goods and commodities we can use. Our exports in November 1945 increased over October by about 40%. At the same time our imports decreased by 9%. These figures tell a tragic tale of impermanence and insecurity in our foreign trade. They are too one-sided and unbalanced. Again I say we need more buyers and need them now. Buyers who can find articles of foreign production that do not compete with our own products—buyers who can create new industries in foreign lands to utilize raw materials and native labor to produce the things that we cannot economically produce. This is one of the ways we can build up foreign trade.

After all, the nations of the world have become highly dependent on each other, so much so that no nation can be happy and prosperous today if the other nations of the world are unproductive and bankrupt. An embargo on imports automatically operates as an embargo on exports as well; both in the long run cause trade possibilities to shrivel and factory chimneys to stop smoking. The tremendous industrial activity and high wages incident to war have incited the whole world with the praiseworthy ambition of attaining a peacetime program with a high level of production, a high level of employment and high wages. Economic welfare throughout the world depends upon the degree of fluidity of world trade. Practically every nation must supply some of its commodity and service needs through resort to the resources of other nations. Production in our own industries must be supported and supplemented by imports and international trade. The rapacious consumption during the war of some of our most vital strategic materials proceeded so far towards exhaustion that the United States in the future must increasingly look to foreign sources of supply. We must become an importer of many raw materials of which we have had an abundant supply in the past. Purchase of such materials is one of the most promising ways by which we may hope to build up our trade with Latin America.

Latin America

During the war Latin America had not received an adequate supply of many of the commodities which it has been accustomed to import from abroad. These countries have established new industries and have increased home production, but largely with respect to consumers' goods. But this new production has not been sufficient to meet their needs. Their usual stocks of these goods have been depleted and their inventories are starved for replacements. It is well known that there is a large built-up demand for consumers' goods of many kinds, necessities and luxuries, which have been in short supply or non-existent during the war.

Also they will require a large volume of heavy building supplies and machinery of all kinds. The Office of Inter-American Affairs has estimated that Latin America will be in the market for about 7 billion dollars' worth of equipment for its industrial needs.

They have built up large dollar balances in the United States with which they may make purchases here. Their gold foreign exchange reserves and trade balances are estimated to be about 4 billion dollars. In reality these balances are small when due consideration is given to the enormous volume of purchases which they may wish to make, and these balances may be exhausted in a very few years. They cannot be counted on as any part of a long range program of trade expansion. A more enduring program must be devised whereby these buying balances may be regularly created. We must buy more of their goods and raw materials.

Increased purchasing power in Latin America will mean increased trade between the Americas and fuller realization of our potential capacities. Thus, the interest of the Latin American countries in achieving a better balance in their economies is paralled by our interest. This country, by contributing its capital, technological skills, and equipment, can strengthen the entire fabric of inter-Americanism, and, by so doing, strengthen itself in the postwar world.

This subject of balanced economy is one of the most vital problems with which the American nations have been faced. Admittedly, the United States will no longer import such huge quantities of strategic materials as were so fortunately obtained from its good neighbors during the war. However, one of the most important trade developments to come out of the war may well prove to be the real progress which the other American nations have made in cultivating their trade with each other. This was largely because of our inability to supply their requirements.

Countries all over the world are now manufacturing products formerly imported. In the Western Hemisphere and other lands hundreds of secondary industries have sprung up. This trend shows every sign of continuing and becoming more pronounced. So far as the United States is concerned, this means fewer sales of the simpler manufactured consumer products in countries where these products are being made, but total export trade will expand and more machinery, technical and engineering supplies and other highly specialized manufactures will be shipped.

Some idea of the industrialization occurring abroad is given by the following examples—

The industrial output in the City of Sao Paulo, Brazil, doubled in the period from 1935 to 1940.

The new steel mill in Brazil at Volta Redonda will produce almost twice as much steel as produced in all of Brazil previously each year and will take care of half of Brazil's steel requirements.

Industrial production in Chile is now 80% greater than in 1929.

Argentina in 1930 imported half of her requirements in cement and produced locally the other half. By 1940, only 0.1% of her cement requirements were imported, the rest produced locally.

From a narrow point of view, this accelerated industrialization in many countries of Latin America might appear to be one point that must necessarily be at the expense of industrialized nations, like the United States, by reducing demand for foreign finished products. Actually, it is likely to have an opposite effect. Industrialization in Latin America is advantageous to the entire hemisphere, because industrial expansion carries with it a greater buying capacity by many people whose standard of living has been substantially increased. Further, the history of international trade relations shows that it pays an economically strong nation to help its neighbors develop, so that they together may march along the road of economic progress.

A Future Expanded World Trade

We are on the threshold of a new business era in our history. It will be characterized by an expanding world trade and by a tremendous growth in the interchange of goods and commodities between the peoples of the world.

A prosperous America with a well-developed two-way flow of foreign trade is one of the most important factors in the stabilization of the postwar world economy. Healthy world trade and the prosperity to which that trade will lead are only possible in a peaceful world.

The barriers to the free flow of world trade are very great. The removal of many of these barriers is a prerequisite in any large scale renewal of normal world trade. We are working feverishly in all kinds of conferences to bring about **political** collaboration for the maintenance of peace and security.

There can be no real peace or security where there is economic disorder and instability. We must, therefore, direct our earnest efforts to bringing about international economic collaboration.

We all want peace, economic security and political freedom. If all of our war personnel and war workers are to have employment, the channels of trade must be opened wide. Without trade there is unemployment. Trade, employment and prosperity are the only antidotes to social and political instability.

We want that form of postwar trade policy which will preserve the free enterprise system which has made our country great, and has given our people the finest and most generally distributed degree of cultural opportunity—the greatest degree of social security and political freedom, and the highest standard of living ever known to mankind.

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Fiscal and Monetary Requisites For Peacetime Prosperity

(Continued from page 1086)

vestment. This calls for a prompt return to conservatism in fiscal policies, for immobilization into bond investments of some of the public's holdings of currency and bank deposits so that they will not be used to feed the fires of inflation, for deflation of the money supply to a point nearer the needs of the community for circulating media, and for the adoption of policies which will permit the banks to extend loans to business without expanding the total deposits of the banking system.

These general objectives call for three specific actions:

1. Balance the budget.
2. Reorganize the debt.
3. Revitalize Federal Reserve controls, each of which I shall discuss.

1. Balance the Budget

An imperative first step in any program of fiscal reconversion is to balance the budget, for our public debt is already too large by any standards. While it is encouraging that some Washington officials have of late held out hope for an early balance and that one of them, Chairman Eccles of the Board of Governors of the Federal Reserve System, has taken a very strong stand on the subject, let us hope that the Congress will have the strength of purpose to hold firm against the inevitable pressures for increased outlays and will promptly eliminate all unnecessary expenditures. The recently published budget message is far from promising in its implications, not only because it fails to establish a balance between estimated revenues and estimated expenditures—the latter, incidentally, being probably underestimated—but also because it forecases a preposterously high minimum future budget of $25,000,000,000 per year.

Why a Balanced Budget Is Essential

A balanced budget is necessary not only because the debt is obviously much too high but for a number of other reasons.

1. Government securities represent so large a portion of the assets of our savings banks, commercial banks and insurance companies that the stability of the whole financial organization is now dependent on the fiscal integrity of the Government.

2. A balanced budget is necessary as insurance against inflation, for the confidence of the people in the soundness of our money is likely to be undermined if, after the massive deficits of the great depression and of World War II, the Government is unable to get its finances under control.

3. Repeated deficits are a powerful impediment to orderly private investment, for if Government policies are inflationary, business confidence tends to be undermined and capital tends to seek inflation hedges instead of job-producing investments.

4. It is necessary that the budget be balanced so that the Federal Reserve Board will be able to use its powers to prevent over-expansion of credit, instead of basing its actions almost entirely upon the necessity of protecting the market for United States Government securities.

5. A balanced budget, together with a program of debt reduction is necessary if we are to accumulate the reserves of borrowing power which the Federal Government would again need if we were to experience another serious economic or military emergency.

There are thus a number of powerful reasons why we must balance the budget and make an heroic effort to reduce the debt substantially in the coming period of prosperity; certainly if we are unable to do so in such a period, then all hope of fiscal integrity is lost. But it is imperative that this be accomplished at a low rather than a high level of Government expenditures. Many estimates of post-war expenditures by the Federal Government assume $30,000,000,000 per annum. I submit that expenditures of such magnitude are absolutely unnecessary and that they are incompatible with the maintenance of sound prosperity within the framework of our free enterprise system.

A Program for Reducing Expenditures

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. 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 $3,000,000,000, which, though four and one-half times our average annual expenditures for military purposes during the period 1925 through 1937, is but a small fraction of the demands of those who want to maintain a colossal and perhaps obsolete military establishment.

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 and to defer such expenditures in good times so that they can be undertaken when business is bad.

3. By eliminating the superfluous and costly aids to agriculture. Farming has become one of the most prosperous industries in the country and it is absurd to continue the bonuses, subsidies and grants which were undertaken when agriculture was prostrate.

4. By subjecting other Government costs to a searching investigation designed to reduce expenses and eliminate duplication wherever possible without impairing essential services.

5. By liquidating the institutions of emergency credit, such as the Reconstruction Finance Corporation. It is time for the credits extended by such agencies to be repaid.

6. By deferring establishment of a "cradle to the grave" Social Security program until the nation can afford it.

If a program such as this were adopted, Government expenditures in years of good business could be brought under $15,000,000,000 per annum, which would enable us to reduce the tax burden on both individuals and corporations to levels considerably below those of today and still have receipts in years of good business sufficient to permit a substantial amount of debt retirement. A prompt balancing of the budget is feasible and most necessary, for it is an essential first step in any program of fiscal monetary and banking rehabilitation.

2. Reorganize the Debt

Another no less vital step, now that the war is over, is to reconvert the Government's debt management policies to the needs of peace. Present Treasury policies—and those of the Administration as well, judging from the President's budget message—are full of potential danger. They are violently inflationary, they impede the proper application of controls by the Federal Reserve System, they carry the threat of doing violent damage in the long run to the essential savings institutions of the country, they place the commercial banks under pressure to lower the quality and lengthen the maturity of their bond portfolios, they represent a rank injustice to those who have accumulated savings for the proverbial rainy day or for use in their old age, they discourage saving and encourage speculation, they represent an open invitation to trouble in case the Government needs to use its credit in a later emergency, and they flout all that history teaches as to the dangers of a large floating debt. That is a strong indictment but it is, in my opinion, fully justified, and it is essential that those responsible for present policies recognize the dangers involved.

Judged by recent actions and by statements emanating from high officials of the Administration, the Treasury is apparently at present following the policy of refunding all maturing or callable issues into one-year certificates of indebtedness, and of stopping the issue of intermediate and long-term securities. The official rationalization of these policies is that they will cut the interest cost of the debt and reduce the income banks receive from interest on Government obligations. Such policies would in time have some quite deleterious effects which I should like to deal with in some detail.

In the first place it is a mistake to assume, as did the President in his budget message, that present policies would simply stabilize present interest rates, for if those policies are continued we may well witness a lowering of the entire structure of interest rates. By refunding maturing issues into certificates, the Treasury would as time goes on force the banks to seek to replenish their earnings by buying intermediate maturities of Government securities when the supply of such issues would be contracting. The total supply of five to ten year Government securities, which represent the maturity area from which banks have derived the bulk of their interest income is now about $35,000,000,000, and the banks have in their portfolios about $20,000,000,000 of such securities. But if the Treasury makes no change in its offering policies, then by the end of 1947 the total of five to ten year securities available in the market will be cut to $10,000,000,000. Treasury policies would thus shorten the supply and magnify the demand for securities of intermediate maturity—and it is likely that yields under such conditions would be under considerable pressure.

The continuation of present Treasury offering policies would also place long-term interest rates under pressure, for if no long securities are offered then the insurance companies and the savings banks, which have funds coming in for investment day by day in very large amounts, and on which they pay substantial rates of interest, will have little alternative but to bid for outstanding obligations—with consequent pressure on this section of the market. If the Treasury does not change its policies it is possible that, whereas until late in 1944 the structure of Government security yields was ⅞% for one year, 2% for eight to ten years, and 2½% for 25 years, we might well have yields of 2% on the long securities and little over 1% on eight to ten year securities. And under those conditions the rate on one year certificates might be brought under such pressure that, in the absence of a revised Federal Reserve policy, it too would decline. This would be a very serious development, for the commercial banks in most communities have on deposit substantial amounts of the people's savings on which they pay rates of interest well above the present certificate rate. Furthermore, the insurance companies have contractual obligations, which require that they earn 2½% or more on most of the funds at their disposal, and if rates of Government securities drop much below that level they will be placed under the necessity of making wholly needless increases in the cost of insurance to the people.

We must keep in mind that all interest rates tend to be responsive to changes in the rates on Government securities and, therefore, if the Government persists in starving the market for intermediate and long-term bonds, the whole structure of rates to nongovernmental borrowers would tend to move lower. Rates on corporate securities, on loans to agricultural and commercial borrowers and on mortgage loans, would probably, under pressure of competition, drop materially if rates on Government securities of comparable maturity were to decline much below the already abnormally low levels.

There is a disposition to believe that interest rates can be forced lower without affecting anyone except the banks and the insurance companies. This is obviously incorrect, for if interest rates were to be forced to the levels implied in present Treasury policies commercial banks would have to increase their service charges on deposit accounts, insurance companies would have to increase the cost of insurance, and savings banks would have to reduce the rates paid to their depositors. We have reached the point where further reductions in interest rates are likely to be taken out of the pocket of the man in the street.

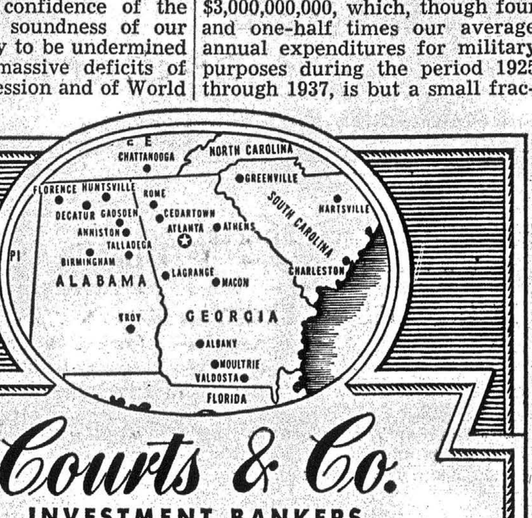
The matter does not end there, however, for banking and insurance institutions have a responsibility to their communities to maintain the essential services which they provide and many of them would be sorely tempted to try to offset the loss of earnings on high grade securities by compromising with long established quality standards in making new loans and investments. Abnormally low interest rates represent an inducement to bad banking and that, as we all know, is quite serious business, for while Government bonds may be riskless, such is not true of lower grade corporate bonds, which can and probably will decline sharply when we next experience a serious depression. There is nothing more important to the future of banking than the maintenance of high quality in the portfolio.

Present Treasury debt management policies would also in time do great injustice to the savers of the country and would tend to impair the source of future capital supply. They reduce the interest income of investors when living costs are rising and they vitiate the incentive to save at a time when business needs for new capital to finance post-war prosperity promise to be unusually high.

Even more important is the fact that present Treasury policies, if long continued, would be violently inflationary, for if yields on Government obligations are forced to still lower and more unattractive levels, holders of cash, as well as present holders of Government securities coming due, will be unwilling to purchase current Treasury offerings. The debt would tend to become concentrated increasingly in the banks and this would result in continued expansion of bank credit at a time when the money supply already is greatly in excess of requirements. What we urgently need now are Treasury policies which will bring about a reduction instead of a further increase in bank holdings of Government securities.

From still another point of view Treasury policies are subject to severe criticism, for they contemplate a rapid increase in an already colossal floating debt. Today more than $70,000,000,000 of marketable Government securities mature in less than a year; and if the Treasury were to refund all such securities, which mature or come up for call, into one year certificates, the marketable floating debt will amount to $105,000,000,000 five years from now and represent 38% of the total debt. Far from increasing either the amount or proportion of the debt represented by short maturities we need to move in the other direction, for history is full of instances where nations have gotten into trouble with an unmanageable floating debt. Sound debt management requires that inducements be offered to the people to invest presently unused cash holdings in long dated securities, which would tend to immobilize some of the hot money—an inheritance from the war.

Finally, the lower interest rates go, the more pressure there will be on the Federal Reserve Board to subordinate its policies to the defense of an arbitrary and abnormal yield structure on United States securities, and the more difficult it will be for the Federal Reserve to hold the line. It is not unreasonable to expect that if the Treasury takes advantage of the present situation to force rates to still lower levels than now prevail the Federal Reserve will, when loan demand revives, find it impossible to prevent bond yields from rising as suddenly as they have declined. Common sense



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tells us that the penalty for forcing any market too high in price is to run the risk of a serious decline later.

For many good reasons we need urgently to have a reorganization of debt management policies; and primarily for the purpose of focusing public attention on an issue of obvious importance, I submit the following program:

1. The first step in this direction should be the redesigning of Government securities to stimulate the absorbing power of the non-bank market and to take advantage of all existing non-bank demands for Treasury issues. To this end, the Treasury might well offer a long bond—with a maturity of 50 years or more—at 3%, which commercial banks should not be permitted to purchase. There must be several billions of funds which would be invested in Government securities at 3% but which the holders will prefer to hold idle at a lower rate. We need to get that money into U. S. securities so that bank holdings of such securities can be reduced.

2. It also is time to give recognition to the fact that some commercial banks are in reality savings banks in everything but name and to permit them to purchase long-term bonds with, of course, appropriate restrictions on the amounts they can own based on their time and thrift deposits. It goes without saying that the 2½% rate on 20-25 year restricted issues should be maintained as an incentive to non-bank investment and the Secretary of the Treasury should announce that he will from time to time offer long or intermediate securities in amounts which the market can readily absorb without causing either a rise or decline from the interest rates mentioned above.

3. The time also has come to revise the savings bond program in the light of changed conditions. The incentive to buy Series E bonds, and to hold them, would be increased considerably by extending their maturity to 20 years and by continuing the 2.9% rate of return from the tenth to the twentieth year, so that individuals with savings programs and savings needs of more than ten years would not be penalized for reinvesting in savings bonds by getting no interest at all in the eleventh year. This privilege should, of course, be extended to outstanding savings bonds to encourage present holders to keep them. Along with this proposed revision might go a reduction of the annual purchase limit to $2,500, in recognition of the fact that these bonds are designed for investors with moderate incomes. Series F and G bonds might well be discontinued. They served a useful purpose in war finance by attracting funds which might not otherwise have been invested in governments. Their place would be taken in the future by the proposed 3% bond, which would have a wider appeal and which would not be a potential source of embarrassment to the Treasury in the event of a rise of interest rates. If the Government pays a reasonable rate of interest, investors can well afford to assume the risk of price fluctuation.

Let us hope that the Treasury authorities will, now that the pressing problems of war finance have been met, redesign their debt management policies to meet the needs of peace-time prosperity.

3. Revitalize Federal Reserve Controls

The third essential element in any program for financial rehabilitation is to revitalize Federal Reserve controls. 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 it can do by changes in rediscount rates to make borrowing from the Federal Reserve Banks more or less expensive, by open market operations which increase or decrease the supply of bank reserves, and within certain limitations, by changes in member bank reserve requirements to reduce or to expand the ability of the banks to make credit available.

During the war, of course, when the Government had to borrow to meet large war-time deficits the Federal Reserve was under the necessity of using these powers for the sole purpose of making sufficient credit available to insure the success of Treasury financing operations. Thus, the Federal Reserve was not free to use its powers to tighten money rates and to force commercial banks to cease adding United States Government securities to their portfolios, even though the economic situation might have called for restrictive action.

Now that the war is over, however, the time has come for the Federal Reserve Board to terminate this commitment, to give consideration to other factors and to avoid abject subordination of its policies to Treasury needs. Several steps in this direction would appear to be necessary:

1. The Federal Reserve Board should publicly announce that while it believes relatively low interest rates are justified and intends to use its powers to maintain them, it recognizes no obligation, actual or implied, to hold interest rates on Government securities at present levels or any other particular levels which they may reach as a result of Treasury debt management policies. Now that the war is over there is neither rhyme nor reason for buyers to be permitted to assume that if they buy an eight-year 2% issue at 1.25% or a 25-year 2½% issue at 2% the Federal Reserve will guarantee them against loss.

2. The Federal Reserve Board should also take steps to regain control over the expansion and contraction of Reserve Bank credit. The "posted" buying rate on Treasury bills means that the Federal Reserve stands ready to buy these bills whenever presented by the holders and this has the effect of shifting control over the volume of reserve bank credit in use to the holders of the bills. This posting of the bill rate should be abolished for it is time for the Federal Reserve to regain control over its own credit operations. At the same time the Treasury Certificates of Indebtedness should be released from the unofficial but quite real posting which the Federal Reserve has maintained by buying certificates whenever presented by the banks. Banks which need reserves should not be free to sell their certificates to the Federal Reserve Banks unless the board feels that an increase in credit is desirable. Henceforth, Federal Reserve purchases and sales of Government securities should be voluntary, deliberate and at the Reserve Board's own initiative.

3. The Federal Reserve should also eliminate the preferential borrowing rate of ½ of 1% on loans secured by United States Government securities having a maturity of one year and less. This is an inducement for banks to assume that the Federal Reserve welcomes the expansion of Federal Reserve credit and is one of the devices which tends to hold short-term interest rates at present abnormally low levels. This action can have high psychological value for it would be another bit of evidence that the Federal Reserve does not consider itself committed to a policy of underwriting the market for Government securities at any price even though the effect is highly inflationary.

There comes a time in the life of every central bank when the financial future of the country depends on whether or not it has the courage to force the Treasury to substitute considerations of national welfare for its own narrow or misguided interest, and that time has come for our Federal Reserve System. The system has a pressing obligation, and an historic opportunity to regain control over bank credit expansion and contraction so that it may again use its power to help prevent inflation and to facilitate the expansion of business to a new high level of prosperity and full employment.

Responsibilities of the Banks

In the light of war-time policies, these suggested changes in Treasury and Federal Reserve policy may seem to be quite revolutionary, but against a longer background they represent a return to conventional and time-tested standards of conduct on the part of our fiscal and monetary authorities. Regardless of whether the authorities take steps along the lines suggested above, the commercial banks should observe self-imposed restraints in many of their operations. They should, of course, refuse to add to their portfolios securities of less than the highest grade, whether or not the monetary and fiscal authorities take adequate steps to terminate the present incentives to seek higher returns outside the Government market. We all know that whenever in the past banks have lowered their quality standards to obtain higher returns they have paid a heavy penalty.

Again, if the monetary and fiscal authorities permit rates on United States Government securities to decline to still lower levels, due to starvation of the market for long and intermediate term bonds, the banks should seriously consider the possibility of drawing their loan rates away from the rates they can obtain on Treasury securities. Rates on prime loans and on high grade corporate bonds have conventionally held just a little above rates on Government securities. This may have been a reasonable relationship in the past but today it has little or no justification because the level on Government securities has been unduly depressed by the arbitrary and artificial manipulations of the war period. Competition to put idle funds to use should not, under present conditions, be permitted to reduce rates on non-Government loans and investment portfolios to a point where there is inadequate compensation for risk.

Now that the war is over, it is to be hoped that the authorities will make such a major shift in policy as has been sketched out here. But, if they do not do so, it is incumbent upon the banks to make their policies more rather than less conservative, to maintain high quality in their loan and investment portfolios, and to follow conservative policies in the maturity of their investments.

Over and above the obvious need for restraint in managing his own bank, the banker has the responsibilitiy of urging his Congressman—who represents him in his Government—to balance the budget, of insisting that the Treasury—who is his debtor—follow debt management policies which are appropriate to peace-time, and of appealing to the Federal Reserve—an institution in which he is a shareholder—to regain its control over credit, so that inflation can be prevented from taking its terrible toll. It is time for us all to speak out against policies which, if continued, will do violence to the private financial institutions of democracy and prevent the nation from realizing the prosperity which seems now to be within our grasp.

Gordon Hanlon to Be NY Exchange Member; Will Admit Loring

BOSTON, MASS. — Gordon B. Hanlon, member of the Boston Stock Exchange, will acquire the New York Stock Exchange membership of the late Howard F. Clapp, on March 7th, and his firm, Gordon B. Hanlon & Co., 10 Post Office Square, will become Exchange members on that date. Robert P. Loring will be admitted to partnership with Mr. Hanlon. Mr. Loring is cashier of the firm.

R. M. Gidney Again Heads Cleveland Res.

CLEVELAND, OHIO — Ray M. Gidney, President of the Federal Reserve Bank of Cleveland since Nov. 1, 1944, has been reappointed President for the five-year term beginning March 1, it is announced by George C. Brainard, Chairman of the board of directors.

Ray M. Gidney

William H. Fletcher, First Vice-President of the bank since last Dec. 1, has been reappointed to that post for the five-year term beginning March 1, Chairman Brainard said. Both appointments were approved by the Board of Governors of the Federal Reserve System.

President Gidney's affiliation with the Federal Reserve System began with its inception in 1914 when he became Secretary to a member of the Federal Reserve Board in Washington. In 1917 he joined the Federal Reserve Bank of New York and was Vice-President of that institution from 1936 until he was named President of the Cleveland Reserve Bank.

Mr. Fletcher joined the bank 28 years ago after eight years as an assistant and national bank examiner. He was chief examiner and assistant Federal Reserve agent previous to his promotion to Vice-President in 1936.

Tassell Opens in Rochester

ROCHESTER, N. Y. — Newton O. Tassell has opened offices in the Powers Building to engage in an investment business. In the past he was associated with the local office of F. J. Young & Co., Inc.

Abney in Anderson

ANDERSON, S. C.—Joel R. Abney, Jr., is engaging in a securities business from offices on North Main Street.

These securities having all been sold, this advertisement appears as a matter of record only.

New Issue

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Price $4.50 per share

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GEORGE F. BREEN

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This announcement is not an offer to sell nor a solicitation of an offer to buy the securities mentioned herein. The offering is made only by the Prospectus.

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Each Unit consists of one share of 30c Cumulative Convertible Preferred Stock (par value $5 per share) and one share of Common Stock (par value 50c per share).

Price: $6.75 Per Unit

A copy of the Prospectus may be obtained from the undersigned.

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February 21, 1946

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leral Reserve Bank of St. Louis

Organization Meeting of Int'l Fund and Bank

(Continued from page 1088)

the invitation to send observers to Wilmington Island.

What Must Be Done in Georgia

Technically, the meeting in Georgia will be a meeting of the Boards of Governors of the Fund and Bank. In a considerable number of cases, including the United States the country's secretary of the treasury or minister of finance will be the country's representative on the Board of Governors. Moreover in most instances, it is expected, the same official will serve as Governor on both the Fund and the Bank. Thus, Secretary of the Treasury Vinson will be our member of both boards of governors. Assistant Secretary of State Clayton will be "the Judge's" alternate on the two boards. As will be recalled, during the public debate last year there was considerable opposition to setting up two separate institutions. The Administration won out on this, as on most points, but as a practical matter decided to simplify the operation of the Fund and Bank by appointing the same individual to both boards of governors, with the hope that this example would be followed by the other countries. Some of the latter, however, may feel that the economy of having a single individual on both boards of governors is outweighed by other considerations, as where there may be competition among individuals for the distinction involved.

One of the first tasks of the Wilmington Island Conference is the adoption of by-laws for both the Fund and Bank. Draft by-laws have already been prepared by U. S. officials, and there has been considerable conferring among "technicians" of different governments. Therefore, it is surmised that a very considerable area of agreement on the by-laws exists, although the opinions of the technicians concerned is not legally binding on the governors who will come to Wilmington Island.

The boards of governors of the Fund and Bank must elect for each of these institutions the executive directors. In each case these will number 12, and in each case, five of the executive directors must be representatives of the countries having the five largest quotas. While nationality is likely to be the decisive factor in the election of any individual executive director, technically the board of governors will vote for individuals and not for countries. While the boards of governors of the Fund and the Bank must meet not oftener than once a year, the executive directors are to function in continuous session, once the Fund and Bank are in operation, and they are responsible for the conduct of the general operations. It is the executive directors who select a managing director for the Fund and a president for the Bank, who in turn appoint the staffs.

Theoretically, it is possible that the two bodies of executive directors will all be present at Wilmington Island and hold their first meetings there. In such event the Fund's managing director and the Bank's president could be selected formally during the March meetings. The Government has selected Assistant Secretary of the Treasury, Harry White, to be this country's executive director on the Fund and Mr. E. G. Collado of the State Department to be our executive director on the Bank. It is possible and even probable that Mr. White may become managing director of the Fund. The salary of this post is likely to be quite substantial, according to Mr. White.

Governors and alternates on the Fund and Bank serve without compensation from those institutions, other than reasonable expenses in attending meetings. Executive Directors are to be compensated. All compensation for personal services paid by the Fund and Bank is to be exempt from tax, excepting by the government of which an individual is a national. In other words, an American employed by the Fund or Bank must pay American income taxes; a Britisher must pay British income taxes applicable; etc. Since the headquarters of the Fund and the Bank are to be in the United States this is said to put American employees at a disadvantage as compared to nationals of those countries which give income-tax exemption to their nationals working abroad.

Selecting a Site

The Wilmington Island Conference will have to arrange for selecting the place of the headquarters of the Fund and Bank. It is understood that the site will be in the United States, with New York and Washington the main contenders. There has also been some discussion of placing these institutions at the UNO headquarters. The latter will be in New York City temporarily.

At Wilmington Island this question, like other specific matters, will be referred to an appropriate committee.

It will be recalled that at Bretton Woods at the time of signing, the United Kingdom delegation made a statement as follows:

> In the opinion of the British Government the location of the headquarters of the Fund ought not to be considered without reference to the location of other international bodies which will be established. The same observations apply equally to the location of the projected Bank for Reconstruction and Development. The British Government may therefore find it necessary at some later date to ask that all such interrelated questions should be considered as a matter for decision between Governments rather than in a technical conference.

Since UNO has now selected this country as its headquarters, London must forego such advantages as might have come from playing host to an international financial body such as the Fund or the Bank.

Admitting Additional Members

A major problem facing the Georgia Conference is the determination of terms and conditions for the admittance of additional members to the Fund and Bank. The problem breaks down into perhaps half a dozen categories. First, under what conditions should membership in the Fund and Bank be extended to countries which, although represented at Bretton Woods, have not yet joined? This group contains countries which want to join soon and others which are unconvinced. To get these countries into the Fund and Bank calls for various degrees of diplomacy.

Another admittance problem relates to former enemy countries including Italy, Austria, Hungary, Bulgaria, Roumania,—and sometime Germany and Japan. Italy's problem is acute, and there is no good reason why the solution of that country's monetary and reconstruction difficulties should rest entirely on Uncle Sam's round shoulders. Washington would like to see Italy in the Fund and Bank, so that other countries might share to some extent in the risks concerned. To a lesser degree this may be true of the Balkan countries named, although Russia's present dominance of that part of the world raises peculiar questions.

A third admittance problem concerns former neutrals like Sweden, Switzerland and Turkey, which country is most anxious to join. Sweden only lately has been inquiring about joining UNO, and as this writer reported from Stockholm last summer, wants to belong to any international financial bodies set up by the United Nations.

In a category apart are Spain and Argentina. The latter is a member of UNO.

Other Decisions Needed

On the agenda of the Wilmington Island Conference will also be the fixing of the terms of employment of the permanent officers of the Fund and Bank. Also to be taken up is the question of whether to seek modification of securities laws of various states in this country, such as may now impede the sale of the Bank's securities here. There have been some conversations between various state government officials and the Treasury Department in Washington on this matter, but the Treasury insists that it has not taken the initiative in the matter, which is one for the World Bank or for investment interests to handle.

Russia's position is sure to be a subject for much unofficial discussion in private corners of the Hotel Oglethorpe. As at the Quebec Conference on food and agriculture last year, the USSR at Wilmington Island will be represented merely by observers. At Bretton Woods, as at so many international conferences since, the USSR, whatever might be the reasons, has been the most disturbing element. At Bretton Woods this country made strenuous efforts to placate and appease Moscow, even to the extent of taking onto our own shoulders $300,000,000 of Russia's quota in the Bank. Then, at the last moment, in what Secretary Morgenthau there described as "an indication of the true spirit of international cooperation," the USSR agreed to take its assigned quota in the Bank. Today, the United States stands committed to a $3,175,000,000 quota in the Bank, including the $300,000,000 taken over from the USSR, while the latter is still thinking over whether or not to join the program.

Russia's abstention from participation in the Fund and Bank is consistent with that country's general attitude of suspicion and growing isolationism, summarized a few weeks ago in Marshal Stalin's election speech. Part of Russia's reasons may be the distaste with which Moscow must view the Bretton Woods requirements for the disclosure of economic information now kept locked in the Kremlin. For example, the Fund requires all members to disclose their gold holdings. Some Americans believe that Russia fears to do this, lest the size of the holdings and gold-mining capacity frighten America into ending its gold-buying policy.

Russia's part in world trade heretofore has been very small and from this standpoint its membership in the Fund is not extremely important. It must be noted, however, that since VE-Day the USSR has acquired a dominant position in the international trade of various smaller countries, and international trade practices are very much the concern of the Fund. Russia's policies may not fit into the international-cooperation world represented by the Fund and Bank.

U. S. Will Seek Clarification

One of the first acts of the United States will be, in accordance with sections 12 and 13 of the Bretton Woods Agreements Act approved by the President July 3, 1945, to "obtain promptly an official interpretation" (a) by the Bank, as to its power to make stabilization loans; and (b) by the Fund, as to whether its power to make loans extends beyond current monetary stabilization operations to afford temporary assistance to members in connection with seasonal, cyclical and emergency fluctuations in their balance of payments, or whether it has authority to provide facilities for relief, reconstruction, or armaments or to meet a large or sustained outflow of capital on the part of any member. In the case of stabilization loans by the Bank, the policy laid down by the Congress is to see that the Bank is given such authority, in case it does not already possess it. In the case of the Fund's powers just described, if the Fund holds that it has them, the policy of the Congress is to secure an amendment of the Fund agreement depriving the Fund of such powers.

Changes Since the Bretton Woods Conference

The Bretton Woods Conference was held in the midst of the war. Since then there have been a number of important changes, some of which tend to make easier the tasks of the Fund and Bank, and others of which have the opposite effect. On the favorable side, the Axis has been overthrown. Reconstruction has started. The Export-Import Bank has been expanded and is performing some of the more urgent functions which at Bretton Woods were envisaged for the Bank. In some areas the "postwar" position of the currency is clearer than at the time the Fund Agreement was signed in 1944. UNO and other forms of international cooperation are a reality, and the United States is formally committeed now to many plans which in 1944 were not even down on paper. The economic strength of the United States is materially committed to world recovery.

On the other side of the picture is the deterioration in the relations of the big powers; the still-unchecked decline in the value of certain currencies like the franc, the yuan, and the drachma; the disturbing political and economic situations in the Netherlands East Indies, India and other parts of Asia; and the large requests for dollar loans which have come to public attention in recent months.

Georgia Conference Smaller than Bretton Woods

Because of the difference in the task before it, the conference at Wilmington Island will be smaller as well as shorter than that held at Bretton Woods, and the pace will be more leisurely, as befitting a Southern environment. As at Bretton Woods, the press will not be housed at the hotel where the meetings take place, but will have to commute from Savannah, some seven miles away. Conference secretariat, supplied by the United States as host, will also be housed at several miles distance. All arrangements, including press, are being handled by the State Department.

If the Wilmington Island Conference lives up to expectations, the officers of the Fund and the Bank selected there will probably get to work on their plans sometime in April. Early in the summer, it is thought, the Fund and Bank will actually be doing business. In the case of the Bank there may be two or three months delay between the receipt of a loan application and its granting. Meanwhile, the Export-Import Bank will continue to take care of the more immediate needs of the outside world for help in reconstruction and development. Some Congressmen who played an important part in the Bretton Woods legislation regard this as a reversal of the promised order of events. In the earlier scheme of things the institutions established were designed to take care of the more pressing needs of the postwar period. Events have decreed otherwise.

Ways to Industrial Peace

(Continued from page 1090)

the workers than to invite strikes and disorders by discouraging unjust demands.

But, it seems to me that this management attitude is short-sighted. Is it not true that the sole hope of industrial peace and the preservation of a free economic system lies in the reassertion by government of the supremacy of the public interest in labor disputes as in all other conflicts between human beings in a modern society?

Wants No Dominant Class Interest

Let me affirm with all the vigor of a lifelong conviction that individual freedom must be preserved and that a competitive system of private enterprises is the necessary economic basis for a political democracy. But, the old time theory that the best government is the least government should not blind us to the fact that the least that a modern government must do in order to maintain individual freedom is to make sure, first. that no one class or element of society is permitted to dictate the terms and conditions of living and working to the rest of the people.

Second, government must be able to require all competing elements to settle their differences by peaceful means. Otherwise, the warfare of classes will develop a discordant, disorderly society in which masses of people dependent on one another will waste their energies and dissipate their wealth in fighting one another. This civil warfare will breed a national inefficiency in which the nation will be unable to make progress, or even to survive, against the aggressiveness in peace or war of other, internally stronger nations.

We should realize that throughout our history it has been necessary from time to time to break down the power of one ruling class after another in order to prevent monopolistic controls of business which grew into political controls, intolerable in a democracy and fatal to a system of free, competitive, private enterprises.

It is only necessary to call the roll of the railroads and public utilities, of industrial monopolies, of banks and other financial organizations, to remind ourselves of the private empires within the state whose authority and irresponsible power had to be checked and made subordinate to government.

Nevertheless, when we review the development of public controls through utility commissions, anti-trust laws, and securities and exchange regulation, we can all groan together over the spreading bureaucracies that now regulate so much of our economic life. So it is not surprising that we all desire less and not more of such political controls.

It is not surprising that thinking men of both management and labor dread and oppose the creation of any new, far-reaching bureaucracy to regulate labor relations.

Government Must Be Supreme

But, let us realize that these trials and tribulations are only the growing pains of an industrial civilization that is hardly 75 years old. It is really the infant of a civilization that has been devel-

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oping for more than 75 centuries. We have not yet learned how to make the state superior to great modern organizations and at the same time leave these organizations essentially free. We have learned much more about how to make the state superior to great men and at the same time to leave these men essentially free.

We enjoy greater individual freedom and security in the United States today than masses of human beings have ever enjoyed before. This freedom is not seriously menaced by our government today. It is menaced by organizations that presume to tell a man whether he can work or not, and under what terms and conditions he may work. It is menaced by unions that presume to establish monopolies of employment, that prate about the "right to work" while they go farther in their efforts to deny that right than any industrial monopolists of our past history ever dared to go.

Special Privileges Given Labor Organizations

It is menaced by these labor organizations because they have been granted by law special privileges and immunities which make it possible for their leaders to tyrannize over both organized and unorganized workers, to fight employers and to resist officers of government with mob violence, to foment and to carry on civil warfare and thus to compel the public to give unwilling support to unreasonable demands as the price of peace.

These lawless powers have been created by laws which were intended to give to workers, who were individually weak, the strength of associations protected and fostered by government. It was intended that these labor unions, being given an equality of bargaining power with large employers, would then be able to gain for their members contractual rights to reasonable wages and working conditions. Thus it was assumed that labor contracts could be peacefully negotiated and peacefully enforced and labor relations established and maintained, as are all other commercial relations, on the sound basis of contract—"that slender thread upon which hangs all our civilization."

But, this reasonable peace program is breaking down under the foul blows of huge, irresponsible labor unions. These national unions have greater economic power than even the largest of our business enterprises. These unions, by their closed shop strategy, eliminate any competitive restraint upon their demands. A rival union can only win members by promising more wages for less work—so that rivalry among unions breeds only more unreasonable demands and greater violence and coercion in enforcing them.

The anti-monopoly laws forbid employers to combine to raise prices. But labor's express exemption from these laws not only permits but invites labor combinations to raise wages, with the inevitable result of raising prices. The perennial competition for the consumer's dollar, which persists within and between industries, and fears of more political regulation, always operate to restrain would-be business monopolists from squeezing the public too hard. But no such restraining influence deters labor unions from using their monopoly power to push labor costs and resulting prices so high that industries, such as those dominated by the building trades, establish prices far above the purchasing power of the most needy customers. Thus the effectiveness of our anti-trust laws is destroyed; and the prosecution of businessmen for violating them is made a tragic comedy by this grant of a much more vicious monopoly power to labor unions.

Lawless Picketing

There is a great deal of unreasoning clamor for local enforcement of the criminal laws to stop warlike picketing and to protect the rights of the public to free and safe access to public buildings, and the rights of employers and employees to free and safe access to their places of business. But, so long as strikes and economic violence are accepted as legal methods of settling a labor dispute, it should be recognized that physical violence and intimidation will be used, regardless of laws that prohibit such offenses.

If the law itself encourges the use of collective coercion to advance selfish interests, regardless of the resulting public and private injuries, how can we draw the line between physical and economic violence? If employees are permitted to ruin a business or to starve or freeze the public by stopping food or fuel production or transportation; if employers are permitted to ruin or starve employees by similar methods—and if this is the legally approved way to settle a labor dispute—how can officers of the law be expected to restrain the fighting forces from physical violence?

When civil government fails to establish and enforce processes of justice for the settlement of controversies, then government itself is responsible for the use and abuse of private force to win a victory. It is only when government has provided the means of peaceful adjustment and then has imposed on all parties a legal obligation to use those peaceful means, that government can justly or successfully stop the use of private force and violence by all law-abiding citizens.

Government's Responsibility

It is the long overdue duty of the federal government to provide a legal machinery for the peaceful settlement of labor disputes of national concern.

It is the duty of government also to set the workers free from the tyranny of labor monopolists, to set business managers free from labor dictation of management policies, to set consumers free from monopoly prices imposed by non-competitive labor costs. It is the duty of the government to revive a competitive system that is being slowly strangled by labor monopolies, aided by willing and unwilling business monopolies.

It is not the duty of government to destroy and cripple labor unions. Labor organizations and genuine collective bargaining provide the necessary checks and balances against the otherwise excessive economic power of organized money controlled by big business management.

Big business organizations and big labor organizations are fit instruments for the service of a modern society. But the government has a right and duty to say to both: If you cannot settle your conflicts of interest by peaceful means, which will be made available and protected by law, then you must make a final choice: either you will cease trying to work together and will peaceably go your separate ways, or you will call upon the impartial agencies of justice which government will establish for a judicial determination of the terms and conditions under which you will work together.

The government has a duty to all the people to command an end to civil warfare and an end to a rule of brutal force that breeds war. This is the twentieth century. The age of the duel and trial-by-combat has long since passed away—everywhere except in international affairs and in the domestic field of labor relations. Today we are even trying to end international wars. We may not succeed. But we are at least trying. It is time that we tried to end civil warfare arising out of labor disputes. If we try we can succeed.

But, we are not even trying so long as we debate such false or trivial issues as: Should we prevent strikes? Is it desirable to have fact-finding commissions? Should a government labor tribunal have the power of subpoena? Think of a nation blanketed with courts and commissions, investigating every private matter in which there is any public interest, and still debating whether a labor dispute commission should have the power of subpoena!

Of course these are not real issues. The real, decisive issue is whether the government is to be trusted to insist upon the peaceful settlement of labor disputes. The answer is a simple one. If the government can't be trusted to preserve domestic peace it is unworthy of any trust. If anyone still has faith in his government, if he is a loyal citizen, he must be willing to authorize his government to preserve peace and good order regardless of his uncertainty as to the fairness or ability of the public officials who may now or hereafter administer the law.

All Are Workers

In a broad view, "labor" includes nearly all our people. Most of our citizens are workers: farmers, business men, housewives, professional men and all of the millions of producers, investors and consumers. Industrial wage earners are not the most numerous or the most essential fraction of our working population. Food producers are a primary need. But, no class or element of our society can advance without the cooperation of all the others. We all go up or down together.

The leaders of organized labor provide only part of the leadership upon which the welfare of the nation depends. They cannot be permitted to arrogate to themselves a domineering authority to advance the interests of unionized labor in callous disregard for the larger interests of all the people.

There is only one authority that can be and must be made supreme. That is the authority of the elected representatives of all the people on whom we must rely for the final judgment as to when and where the demands of selfish, class interests must be subordinated to the demands of the public interest. This reliance may sometimes be placed in unworthy men. But, in the long run, if we ourselves are loyal to our government, we will find that most of those to whom we entrust our powers of self-government will prove faithful to that trust.

This is an appropriate time to look back across the graves of the soldiers of every generation who gave their lives to build and to preserve this nation and—in a paraphrase of Lincoln's noblest address—to take a high resolve that these dead shall not have died in vain, that this nation under God shall have a new birth of freedom, and that every attempt to establish government of a class, by a class and for a class shall be destroyed, so that government of all the people, by all the people and for all the people shall not perish from the earth.

W. E. Hutton & Co. Adds to Staff

William O. Gay, Jr., formerly Lieut. Commander, USNR, and Ernest E. Keusch, Captain AUS, have become associated with W. E. Hutton & Co. in the firm's New York office, 61 Broadway. George C. Lee, Jr., Lieut., USNR, and John M. Bleakie, Lieut. Commander, USNR, have joined the firm in Boston, at the 75 Federal Street office. Joseph W. J. Cooper, formerly in Government service, has become associated with the firm in its Baltimore office, First National Bank Building.

Quinn Trading Mgr. For Livingstone & Co.

SAN FRANCISCO, CALIF.—John J. Quinn has been appointed Manager of the San Francisco trading department of Livingstone & Co., 317 Montgomery Street, Willard H. Livingstone, President, announced today.

Mr. Quinn is well known in West Coast financial circles and has been in the trading end of the business for the past 20 years.

Jay McKenna, Inc. Opens

ELKHART, IND.—Jay G. McKenna, Inc., is engaging in an investment business from offices on East Jackson Boulevard.

Green of AFL Finds Govt.'s Wage Price Policy Unsatisfactory

President William Green of the American Federation of Labor issued a statement on Feb. 15 in which he asserted that "the Government's new wage-price policy is unsatisfactory to the American Federation of Labor and unacceptable." Mr. Green added:

William Green

"It constitutes a backward step—a return to wartime economic conditions. It re-establishes wage fixing by Government and strikes a body-blow at free collective bargaining. No employer will be willing to bargain collectively with a labor union under the restrictions imposed by the new policy.

"We realize that the Government faced a serious difficulty in seeking to promote full production while wage and price disputes disrupted reconversion. But the new policy is no solution. It will only serve to increase confusion and multiply the nation's troubles. We fear it will also create widespread social, industrial and economic discontent and upheavals."

Detzer Joins Seligmann

(Special to THE FINANCIAL CHRONICLE)

MILWAUKEE, WIS.—Harold E. Detzer has become associated with Seligmann & Co., 735 North Water St. In the past he was in business for himself as an individual broker.

Now Incorporated

Rutberg & Co., 31 Nassau St., New York City, is now doing business as a corporation.

This advertisement is not, and is under no circumstances to be construed as, an offering of these securities for sale or as a solicitation of an offer to buy any of such securities. The offering is made only by the Prospectus.

The Cincinnati Milling Machine Company

230,000 Common Shares
(Par Value $10 Per Share)

Price $31 Per Share

Copies of the Prospectus may be obtained in any State from only such of the undersigned as may lawfully offer these Securities in such State.

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February 28, 1946.

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Federal Reserve Bank of St. Louis

Securities Salesman's Corner

By JOHN DUTTON

There is a vast difference in values between many securities that sometimes sell at, or about the same price levels. But during periods of advancing bull markets such as the present one, the public often overlooks value and buys the better known name securities, which in many instances represent the least attractive investment opportunities.

Certainly no sound and lasting clientele can be established unless the securities that you sell hold up. But this alone is not enough. Over the longer term those securities should out perform the averages in price appreciation. The uninformed security buyer for the past several years has seen almost anything that he touched advance in price. What he usually does not realize is that he has been riding a trend. It has been the gradual and creeping inflation of everything that has provided the price advance; rather than the internal growth and better prospects of the company in which he became a stockholder, that made the difference.

It is therefore advisable to lay stress upon the difference between a security that should advance because it has internal growth possibilities, and one that may advance just because everything else is going to have a rise in price. On this point it is now well agreed by students of the markets that we are no longer in a position to close our eyes and say that everything will be all right for an indefinite period ahead. It is difficult to determine just how much more of this bull market lies ahead—and when it will terminate itself. We've been in it too long for complacency.

But if we begin to show our customers that real values can still be obtained if you look for them; and we can convince them that it is a much safer procedure to buy stock in a smaller company, that has good management, with ample capital for its needs and a sound position in its industry, and buy that stock on a low ratio of earnings to price, as against the big name company on a higher ratio —then we are protecting our customer's better interest, and our own clientele as well. For, sound values will have an opportunity to assert themselves in the future—increase net per share never fails to bring about eventual price improvement, and that kind of market appreciation sticks to your ribs because it is based upon such tangibles as increased assets and earning power.

Letters or advertising could be prepared which are based upon this inviting theme. It's the kind of intelligent promotional material which will not only help those firms who use it, but it will help the public as well. The more of the truth the investing public understands the better customers they will be. Something along the lines of the following advertisement is what we have in mind.

INVESTMENT OPPORTUNITIES

The best investment opportunities are not always among the so-called "blue chip" market leaders, that are now selling at their highest price since 1937.

In our opinion, it is the medium sized, growing company, that has aggressive management, attractive products and superior merchandising ability, that will lead the way during the next few years.

We have assisted many individuals as well as institutional investors to select SPECIAL SITUATIONS THAT HAVE BEEN FAR ABOVE THE AVERAGE IN PERFORMANCE, both as to income and price appreciation.

Your further inquiries are invited.

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N. Y. Curb Governors Re-Elect Edwin Posner

At the 36th Organization meeting of the Board of Governors of the New York Curb Exchange Edwin Posner, Andrews, Posner & Rothschild, was reappointed President Pro-tem and Edward C. Werle, Johnson & Wood, was appointed Vice-Chairman. Also appointments made by the Chairman of officers, department heads and committees were approved. Charles E. McGowan was renamed Secretary and Director of the Department of Transactions; Christopher Hengeveld, Jr., Treasurer and Director of the Department of Administration; Joseph R. Mayer, Assistant Treasurer; Henry H. Badenberger, Director of Department of Outside Supervision; and Martin J. Keena, Director of the Department of Securities.

John T. Madden, dean of the New York University School of Commerce and Benjamin H. Namm, President of Namm Department Store in Brooklyn and National Retail Dry Goods Association were re-elected Class "C" Governors for the sixth time to represent the public on the Curb Exchange Board. They are not engaged in the securities business.

Members of the standing committees are:

Committee on Admissions—Thomas W. Bartsch, Chairman, Andrew Baird, Joseph Kital & Co.; Jos. F. Crowley, Thomson & McKinnon; Chas. J. Kershaw, Reynolds & Co.; E. A. O'Brien; Frederick J. Roth; Morton Wohlgemuth, Ernst & Co.

Committee on Arbitration—Joseph F. Crowley, Chairman; Thomas W. Bartsch; Caspar C. deGersdorff, Harris, Upham & Co.; Harold C. Patterson, Auchencloss, Parker & Redpath; Edward C. Werle.

Executive Committee—Edwin Posner, Chairman; Chas. D. Halsey, Mortimer Landsberg, Thomas A. Larkin, Fred C. Moffatt, Frederick J. Roth, Edward J. Shean, Edward C. Werle.

General Committee on Securities—Mortimer Landsberg, Chairman, Brickman, Landsberg & Co.; Eugene S. Brooks, Coggeshall & Hicks; Caspar C. deGersdorff, E. A. O'Brien, Howard C. Sykes, Victor Verace, Lehmann-Verace; Wm. T. Veit, Lawrence Turnure & Co., Blyth & Bonner; Charles E. Warnor, Cohu & Torrey; Morton Wohlgemuth.

Committee on Listing—Mortimer Landsberg, Chairman; Caspar C. deGersdorff, Howard C. Sykes, Wm. T. Veit, Victor Verace, Charles E. Warner.

Committee on Security Rulings —Morton Wohlgemuth, Chairman; Eugene S. Brooks, E. A. O.Brien, Howard C. Sykes.

General Committee on Transactions—Edward C. Werle, Chairman; Andrew Baird, Joseph F. Crowley, James R. Dyer, Chas. J. Kershaw, Fred C. Moffatt, E. A. O'Brien, Chas. H. Phelps, Jr., Frederick J. Roth, Morton Wohlgemuth.

Committee on Stock Transactions—Edward C. Werle, Chairman; Andrew Baird, Joseph F. Crowley, James R. Dyer, Fred C. Moffatt, Charles H. Phelps, Jr., Frederick J. Roth.

Committee on Bond Transactions—Morton Wohlgemuth, Chairman; Charles J. Kershaw; E. A. O'Brien.

General Committee on Outside Supervision—Thomas A. Larkin, Chairman; Eugene S. Brooks, Edward J. Cohan, Chas. D. Halsey, Laird, Bissell & Meeds; Bayard C. Hoppin, Hoppin Bros. & Co.; Paul L. Hughes, Gude, Winmill & Co.; Charles E. Judson, Chas. J. Kershaw, Charles Moran, Jr., Francis I duPont & Co.; Harold C. Patterson, Edward J. Shean, Howard C. Sykes.

Committee on Member Firms—Thomas A. Larkin, Chairman; Paul L. Hughes, Charles Moran, Jr.; Harold C. Patterson.

Committee on Business Conduct —Edward J. Shean, Chairman; Chas. D. Halsey, Bayard C. Hoppin, Howard C. Sykes.

Committee on Communications and Commissions Charles E. Judson, Chairman; Eugene S. Brooke, Edward J. Cohan, Chas. J. Kershaw.

Committee on Finance—Frederick J. Roth, Chairman; Thomas W. Bartsch, James R. Dyer, Mortimer Landsberg, Edward J. Shean, Victor Verace, Edward C. Werle.

Committee on Public Relations —Fred C. Moffatt, Chairman; Bayard C. Hoppin Harold C. Patterson, Wm. T. Veit, Major B. H. Namm as advisor.

Ohio Brevities

(Continued from page 1101)

the sale increased the capital and surplus of the bank to $500,000, enabling it to make loans up to $50,000.

* * *

Directors of Chesapeake & Ohio Railroad and Pere Marquette Railway unanimously approved the merger of the two roads which eventually will result in a single 5,000-mile main line system.

At the same time, the directors named Robert J. Bowman, present head of the Pere Marquette, to be president of the merged roads.

On April 23 in Richmond, Va., the C. & O. stockholders will vote on the merger and on May 7 in Detroit, the Pere Marquette holders will vote. Bowman will take his new post on April 23, succeeding Carl E. Newton, who resigned in January to return to his New York law practice with the firm of Donovan, Leisure, Newton & Lombard, which he left in 1942 to take the C. & O. presidency during the war emergency.

Robert R. Young will be chairman of the board under the plan, and all vice-presidents of both roads will continue in similar posts. The terms of the merger include:

An issue of 3½% cumulative preferred stock will be offered to effect the exchange of P. M. prior preference and preferred stocks for C. & O. stock.

This stock will be convertible into 1.6 shares of C. & O. common, thereby fixing the conversion price of $62.50, and will be redeemable at 105 a share Nov. 1, 1950, or any later dividend date, plus accrued dividends.

Each share of P. M. prior preference stock is to be exchangeable for one share of 3½% convertible preferred stock, and one-third share of C. & O. common.

Each share of P. M. preferred stock is to be exchangeable for 8/10s share of 3½% convertible preferred stock and 4/10s share of C. & O. common.

Each share of P. M. common is to be exchangeable for one-half share of C. & O. common.

* * *

A half dozen Cleveland firms were in the Blyth & Co. group which offered $18,757,000 general and refunding bonds, due 1986, of the Port of New York Authority at 98¼ and accrued interest. The group won the bonds on a bid of 97.30.

Cleveland firms included Hayden, Miller & Co., Field, Richards & Co., Paine Webber, Jackson & Curtis; McDonald & Co.; First Cleveland Corp., and Fahey, Clark & Co.

* * *

The Dillon, Read & Co., Inc., group was made up of a number of Cleveland houses in the offering of 60,000 shares of Universal Pictures Co. 4¼% cumulative preferred stock, par $100, at $102 a share.

Aside from Blyth & Co. and Paine, Webber, Jackson & Curtis, there was First Boston Corp.; Hornblower & Weeks; Merrill-Turben & Co., and Maynard H. Murch & Co.

* * *

Stockholders of Industrial Rayon Corp. will be asked at the annual meeting March 27 to amend the certificate of incorporation to increase the authorized common stock from 1,200,000 to 3,000,000 shares.

The company's directors also recommended that the present common stock without par value be changed to $1 par value and that holders approve a split of the outstanding 759,325 common shares so each would be changed into two shares of the proposed $1 par common.

Charles W. Carvin of New York, a vice-president since 1941 and head of sales since 1943, was elected to the board, succeeding Fred W. A. Vesper of St. Louis, who died last January.

Freight Cars on Order Increased in January

The Class I railroads on Feb. 1, 1946, had 38,090 new freight cars on order, the Association of American Railroads announced on Feb. 23. This included 13,179 hopper (which included 3,266 covered hoppers), 5,120 gondolas, 718 flat, 13,132 plain box, 4,221 automobile, 1,620 refrigerator, and 100 miscellaneous freight cars. New freight cars on order on Jan. 1, last, totaled 37,160 and on Feb. 1, 1945 amounted to 36,734.

They also had 454 locomotives on order Feb. 1, this year, which included 81 steam, six electric and 367 Diesel locomotives. On Feb. 1, 1945 they had 451 locomotives on order which included 80 steam, two electric and 369 Diesel.

The Class I railroads put 2,457 freight cars in service in January, which included 968 hopper (including 35 covered hopper), 521 gondolas, two refrigerator, 282 automobile box and 684 plain box freight cars. In January, 1945 the railroads put in service 4,468 new freight cars.

They also put 21 new locomotives in service in January, of which 11 were steam, and 10 were Diesel. New locomotives installed in January, 1945, totaled 34, of which there were three steam, and 31 Diesel.

Sugar Bill Passed

A bill which was passed by the House and sent to the Senate on Feb. 4 would permit the Commodity Credit Corporation to make price support payments on the 1946 Puerto Rican and Hawaiian sugar crops, according to the Associated Press in its Washington advices, which added that the House Banking and Currency Committee, in presenting the legislation to the House, had stated:

"The Committee has been advised that the price of refined sugar will be increased one-half cent per pound early in February. After this increase becomes effective, there will be a loss of about six-tenths cent per pound on sugar brought into the United States from Puerto Rico and Hawaii.

"The enactment of this bill is necessary before this sugar brought in from Puerto Rico and Hawaii can be sold and distributed to consumers in the United States.

"Stocks of sugar are low, particularly in the eastern and southern parts of this country, and sugar will not be available to meet present ration requirements unless an immediate and constant supply from the Caribbean is assured."

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Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

Technical indications now point to rally of about 15 points. Traders to benefit most. Panic selling responsible for most of recent break.

For some weeks this column has been waging what amounted to a one-man campaign against the dangers of over-optimism. It particularly stressed the menace that faced the market once the wild-eyed bullish public became panicky. Those of you who have been through the wild upsurges and the equally wild breaks of late 1929 knew what damage could be done. To most of the present day purchasers it was all a lot of poppy-cock.

* * *

One of the arguments widely quoted against a break was one which pointed a reassuring finger at the excellent conditions of customers' accounts. The public wouldn't sell, it was said, because it didn't have to. It owned stocks outright. Inflation was in the saddle and what reactions occurred would be only minor and to be used for accumulation. Anybody who sold was silly. He would just have to buy them much higher.

* * *

Such reasoning didn't impress me. On the contrary it made me more cautious than ever. I tried to convey this feeling by emphasizing various technical signals and attempted to analyze market action in the light of such signals.

* * *

The first warning that all wasn't well with the market appeared here when the presence of what I called a "market gap" was pointed out. I said that in past markets the presence of such a gap indicated a public following and that sooner or later the gap would have to be closed. The averages were then at about 208. The gap was between 198 and 201.

* * *

They did go down to about 198 (actual figure 197.65) and rallied to about 206. I then said that this upper level was the center of a trading area that took three weeks to establish, and that between those two points "is the area of decision."

* * *

In last week's column, where this area of decision was discussed, I warned that the lower figure must be held and that if it broke ". . . a large . . . amount of public selling . . . will carry them much lower than generally expected."

* * *

There is little point in beating a dead horse. What you saw, and what you were warned against, is now history. We have to determine now what the pattern will be from here.

* * *

Using the technical yardstick the first real break carried the averages from about 206 down to about 192. A minor rally brought them back to about 197. Taking that entire process and considering it a minor cycle, the picture of the future looks something like this: The first crack saw a 14 point break. Taking the recovery top (196) and measuring 14 points lower from that will give you a level of 182. This figure isn't absolute. There is nothing asolute about the market. But if technical indications mean anything somewhere around 182 (two points either way) will be the base from which a rally will start. How far it will go can also be determined. Of course, such a forecast cannot take into consideration unexpected news or the public reaction to it. But based on known factors up to this writing (Tuesday morning) a rally back to about 193-196 is a normal expectation.

* * *

You were stopped out of Baldwin (1 point gross loss); and Flinkote sold at even prices, gross. You still have Waukesha with a stop at 29, bought at 32½. If by the time you get this stocks are in the 182 zone, as mentioned above, I think re-entry on the long side would be warranted. Broadly speaking the buying levels should be closely geared to the 182 (make it 180-184) range. Among the specific issues the following are suggested: Air Reduction, American Car and Foundry, American Locomotive, American Steel Founders, Chrysler, Electric Auto-Lite, Bethlehem Steel, U. S. Steel, Superheater and U. S. Rubber. There are other stocks which will also go up if the market turns. But in the first stage of a recovery it is wisest to concentrate on the leaders.

* * *

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.]

King George Signs Bill Nationalizing Bank of England

The bill to bring the 250-year old Bank of England under public ownership has become a law with the granting of Royal Assent. Prince George VI affixed his signature to the bill on Feb. 15. The House of Lords passed the bill without discussion on Feb. 6, thus finishing legislative action on the first measure in the Labor Government's Nationalization program. The bill passed the House of Commons on Dec. 19, by a vote of 306 to 126, and reference thereto was made in our issue of Jan. 3, page 58. An item bearing on changes made in the bill in Commons on Dec. 17 appeared in these columns Dec. 20, page 3036. Under date of Feb. 14, Associated Press advices from London said.

"Described by Labor party members as "a great charter of freedom for the English people," the measure transfers the bank to public ownership, with administration by a Governor, Deputy Governor and court of ten directors appointed by the King.

"The capital of the private bank was $58,212,000. It has paid 12% dividends annually since 1923. Shareholders will be compensated with Government stocks bearing 3% interest.

Scheffmeyer & Co. Admits

Scheffmeyer & Co., 26 Broadway, New York City, members of the New York Stock Exchange, will admit Edwin S. McKinney, Eva M. McKinney, and Louise T. McKinney to limited partnership in the firm on March 7th.

Now Corporation

DAYTONA BEACH, FLA. — T. Nelson O'Rourke has formed T. Nelson O'Rourke, Inc., to continue his investment business. Offices of the firm, of which Mr. O'Rourke is President, are located at 356 South Beach Street.

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Public Utility Securities

(Continued from page 1092)

Public Utilities savings will probably not be very large since it has not been paying Federal excess profits taxes. It will, however, as indicated by Mr. Tegen, enjoy gains resulting from refundings, mergers and Philippine rehabilitation. The stock would therefore seem to be reasonably priced as compared with the issues listed above, though of course each holding company situation must be analyzed individually in relation to its integration problems.

In the pro forma consolidated earnings statement for the 12 months ended Sept. 30, 1945 General Public Utilities earned $1.57 a share but of this amount about 35c a share represented restricted earnings. Mr. Tegen did not indicate what proportion of the estimated $1.48 for the calendar year would remain on a restricted basis, that is, unavailable for dividends. The dividend policy of the new company has not yet been indicated.

Bonds of New South Wales Drawn for Redemption

Holders of State of New South Wales, Australia external 5% sinking fund gold bonds, due April 1, 1958 are being notified that $439,000 principal amount of these bonds have been drawn by lot for redemption on April 1, 1946 at par. The bonds will be redeemed at the Corporate Trust Department of The Chase National Bank of the City of New York.

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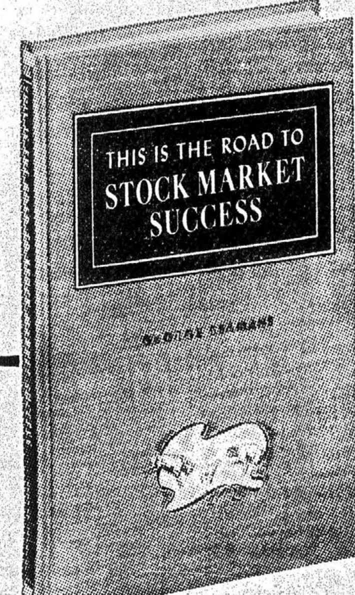

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A Uniform Treasury Certificate as Bank Reserve

(Continued from page 1087)
mainly based upon bank holdings of public debt securities.

II

The new position of the public debt as the chief earning asset of the commercial banks raises a number of major problems for the Reserve System:

(1) **Its control of commercial bank lending has been seriously impaired.** When a commercial bank has a large portfolio of marketable securities, it need not seek the aid of its Reserve bank to expand its direct loans after using up its excess reserves. It can sell securities in the open market. The kind of loans it makes as well as their aggregate amount is placed beyond the reach of the Reserve bank until the commercial bank's marketable securities are exhausted. The Reserve banks can still restrain a net credit expansion by the member banks as a whole by limiting member bank reserves. But undesirable types of bank lending might continue to expand, the banks obtaining funds therefor through the sale of Governments to other banks and to non-bank investors. Such sales would transfer the inactive balances of the purchasers to the sellers or borrowers who would put them to active use. In other words, bank lending would continue to finance an expansion in the rate of spending, and in undesirable directions, even though no net increase occurred in the nominal amount of Reserve or member bank credit outstanding.

Only if the general restrictive credit policy were sufficiently pronounced to cause severe depreciation in the market value of Government securities could it be relied upon to stop an undesired loan expansion. At sharply lower prices, many bankers would doubtless forbear to sell their Governments because of the book losses they would realize, even though the proceeds could be loaned out to customers at high rates of interest. In short, an effective over-all curtailment of credit under present conditions would operate through and function like a specific attack upon the Government bond market.

(2) **The maintenance of an orderly bond market for Government securities has assumed a new importance that conflicts with quantitative methods of controlling credit.** As of June 30, 1945, $38 billion of the $85 billion of Governments held by commercial banks consisted of bonds whose maturities were more than five years away. A 1¼% five-year note would drop nearly six points below par if it went to a 2½% basis; an eight-year 1½% bond would drop more than 7 points under par. The 14-17 year 2¼% bond issued in the Victory Loan would drop 6¾ points if it went to a 2.75% basis; and a 22-27 year 2½% bond would drop about 9¾ points below par if it went to a 3% basis. A decline of only 3% in the aggregate market value of commercial bank holdings of Governments would wipe out one-third of their total capital funds.

(3) **A new question arises respecting the legitimate level of bank earnings when the latter are mainly derived from Government securities.** The traditional concept that a commercial bank earns interest for the service of substituting its superior and better known credit for the inferior and lesser known credit of the borrower is strikingly inapplicable to the present situation in which the commercial banks, with total capital funds of $8 billion are extending credit to the United States Government in the amount of $85 billion. Other grounds for interest payments by the Government to the banks may be readily found in the monetary machinery provided by the banks. But how much shall the banks be paid for performing these services? Mainly as the result of their increased holdings of Governments, the net profits of member banks in 1944 were two-thirds larger than in 1941 and larger than in any previous year. They rose by another 25% in the first half of 1945 over the like period of 1944. The wartime boom in bank earnings differs from that of other industries in that the supporting conditions will not disappear with the end of the war. The existence during the war of high excess profits taxes and of high taxes on ordinary corporation income has thus far both obscured and mitigated the questions of equity and public relations created by the amount and Governmental source of bank earnings. These questions will be aggravated from now on with the excess profits tax repealed and other corporation income taxes reduced.

(4) **Will member banks be disposed to assume the normal risks of commercial lending in suitable volume under present conditions?** With the great increase in their holdings of and earnings from Government securities, many commercial banks no longer possess the incentive they once had to seek commercial loans. They can now make a good living without taking the risks of direct loans to business. Since they are profit-seeking enterprises, this fact alone would not necessarily act as a strong deterrent. But it is joined and made doubly effective under present conditions by another influence: the unprecedently thin and still shrinking capital ratios of the commercial banks. Between the middle of 1934 and the end of 1944, the total deposits of the insured commercial banks rose from about $37 billion to about $128 billion or by 246%. Their capital funds constituted about 17% of their deposit liabilities and about 19% of their earning assets in 1934; by 1944 these proportions had shrunk to approximately 6% and 7.6% respectively.

These circumstances impair the ability of the Reserve System to stimulate direct lending by banks. An easing of credit conditions would doubtless induce many banks to add further to their holdings of Governments rather than to assume the risks that go with any but the highest qualities of commercial loans.

The continuance of the commerical banks as private institutions does not rest upon their ability to buy and own Governments and to create deposits in the process. The Government or the Federal Reserve banks alone could perform this function. The commercial banks doubtless contribute invaluable services to their communities as money changers, repositories, and bookkeepers, among other things. But their most vital function as private enterprises is the lending function. If by reason of excessive earnings from holdings of Government securities they are led to respond inadequately to the legitimate needs of their communities in this respect, they give up the most vital reason for their continued existence as private institutions.

III

In my opinion, least violent solution of the major banking problems arising out of the public debt would be a variant of a proposal I made at a meeting of the American Statistical Association five years ago: the substitution of a single uniform Treasury obligation, which would constitute a part of the required reserves of commercial banks, for the bulk of their present holdings of Governments. Just as it formerly required that national bank note currency be secured by United States bonds bearing the circulation privilege, Congress could require all banks with deposits in excess of perhaps $1 million to maintain, in addition to other reserves required by Federal or State regulation, reserves in the form of special Reserve Certificates or Reserve Bonds equal to stated proportions of their deposit liabilities. The Reserve Certificates would bear interest at perhaps 1%, and would be callable for exchange into like securities bearing a higher or lower rate of interest, or for final redemption, at any time upon four months' prior notice, by act of Congress. They would have no final maturity date. They would be payable upon the demand of any bank. Were it not for the unnecessary break with tradition that would be entailed, the additional reserve requirement could consist simply of interest-bearing deposits with the Treasury. Initially any bank could obtain the Certificates in exchange for outstanding Government obligations. Afterward, the Certificate could be purchased from the Treasury at any time in the amounts needed to meet the Certificate Reserve requirements; and banks whose requirements had fallen would be required to turn in their excess certificates for redemption at stated times, such as the end of each week or month.

Under the proposal as here outlined, the present reserve requirements of the Board of Governors of the Federal Reserve System would continue to govern credit expansion. There would be no fixed ceiling on the amount of Reserve Certificates the banks might purchase from the Treasury, and no formal limit on the amount of ordinary Governments they might purchase in the open market, just as there are now no such limits. But the amount of funds available for the total of bank acquisitions of Governments would be determined, as now, by the ordinary reserve requirements and credit policy of the Reserve System; and the amount that Reserve Certificates would constitute of the total would be limited by the sum needed to satisfy the Certificate reserve requirements. The Treasury could use the proceeds of its sales of Reserve Certificates for the retirement of other obligations if the cash budget were otherwise balanced.†

An increase in the ordinary reserves of the member banks as a whole, which could be brought about by an increase in Federal Reserve credit, gold imports, or a turn of currency from circulation, among other means, would be capable of producing the same multiple expansion of member bank credit as is the case today, but one-half of the expansion would have to take the form of increased holdings of Reserve Certificates (assuming a 50% Certificate Reserve requirement). Thus, if a customer of Bank A sold $100 of marketable securities to a Reserve bank, and deposited the proceeds with Bank A, the latter's reserves and deposits would each be increased by $100. Bank A would be required to keep about $20 of its new funds as ordinary lawful reserves and to purchase $50 of additional Reserve Certificates from the Treasury, leaving it $30 free for loans and other investments. The $30 it so uses plus the $50 paid to the Treasury, which the latter would use to retire an equal amount of its other obligations, would find their way into the reserves of other banks to serve in similar manner as the basis for deposit expansion, until a total of approximately $500 of new member bank deposits had been erected on the basis of the $100 of reserves created by the Reserve bank purchase of securities (the 5 to 1 ratio being the result of the 20% average ordinary reserve requirement).

The precise percentages that the Reserve Certificates should constitue of deposits from time to time might well be left to be determined by the Reserve System within limits established by Congress. The percentages could vary for different classes of banks and for demand as against time deposits, as is true of ordinary reserve requirements. At present they could well be as high as 65% against the demand deposits of central reserve city banks and moderately lower for other classes, with perhaps 50% required against time deposits. The percentages should be so fixed as to leave the banks with a small amount of ordinary marketable Governments; and Federal Reserve credit policy, at least in times of market weakness, should provide the banks with funds with which to purchase more on the market. The purpose of this suggestion is to maintain the position of the commercial banks as part of the mechanism of the bond market, providing wholesaling and distributing services. The Reserve banks alone, operating in a few large centers, could not perform this service as well, nor could they do it without direct effects upon the volume of member bank reserves.

By making the Treasury, rather than the Federal Reserve banks or the Federal Deposit Insurance Corporation, the depository agency for the new reserves, the jurisdictional limitations of these other agencies would be avoided. All banks, whether or not members of the Reserve System or insured by the FDIC, could be brought conveniently under the new requirements. The only reason for the suggested exemption of banks with demand deposits of less than $1 million is to exclude the numerous small banks that might find the requirement of certificate reserves a hardship both to themselves and to their customers, and that collectively own only a tiny fraction of the outstanding Governments. Of the 14,000 commercial banks in the United States, the less than one-half with $1 million or more in Governments account for well over 90% of the aggregate commercial bank holdings of Governments.

It is suggested that the rate of interest be fixed by Congress rather than the Secretary of the Treasury. If the latter had full discretion respecting the interest rate, yet ownership of the securities by the banks were mandatory, the Secretary would be continuously charged with imposing too low a rate, and some Secretary might indeed actually reduce the rate to practically zero. On the other hand, if the Board of Governors or some other constituent of the banking system had the power to fix the rate it might be charged with being unduly generous to the banks.

The principal advantages of transforming the bulk of the bank-held portion of the public debt in this fashion may be summarized as follows:

(1) The Treasury would permanently fund at a low interest rate about one-half of all the outstanding marketable obligations in private hands. The result would be to remove this large fraction of the total from the category of ordinary public debt obligations and to eliminate all the refunding operations otherwise necessary in connection with it. Although the Reserve Certificates would be payable on demand, so far as any individual bank was concerned, the Treasury would never experience a net loss of cash to the banks as a whole unless the banks themselves were experiencing a reduction in their deposit liabilities. Commercial banks that were experiencing adverse balances at the clearing house would cash in some of their Certificates from time to time; but barring a deflationary policy by the Reserve System, such sales would be counterbalanced by an increased demand for the Certificates on the part of other banks whose deposits were being increased.

(2) The Reserve banks would regain a considerable measure of control over direct bank lending because the individual commercial bank could no longer obtain funds for loan expansion through the liquidation of its Governments except in the greatly reduced measure in which it would continue to own ordinary marketable Treasury obligations.

(3) If the Reserve System should adopt a restrictive credit policy, the impact would not be as concentrated upon the Government bond market as would be the case under present arrangements. The banks would have only a small fraction of their present holdings of marketable Governments. The threat of sporadic waves of large-scale selling of Governments by the banks and the accompanying threat to the stability of interest rates and the supply of money would be greatly reduced. Under ordinary circumstances, the ability and disposition of the commercial banks to cushion the bond market against waves of selling by other investors and to perform their traditional and valuable services in the distribution of new and refunding Treasury securities would be renewed and reinforced.

(4) The problem of bank earnings would be solved in an equitable, safe, and reliable fashion. The suggested initial rate of 1 per cent compares with the rate of ¾% paid to commercial banks in Canada and Australia on special deposits made with the Treasury or central bank during the war, and with the rate of ½% now paid by Great Britain on such deposits. If continuing additions of Certificates to bank portfolios created excessive earnings from the 1 per cent rate, an appropriate reduction could be made.

(5) The commercial banks would be relieved of all worry over the future course of interest rates and bond prices so far as the bulk of their assets is concerned. With perhaps 50 to 65% of their earning assets no longer subject to price risks, as well as perhaps 25 per cent more in the form of cash, the liquidity and safety of the individual banks and the system as a whole would be enormously increased. The effect would be tantamount to a huge increase in banking capital. In consequence, the ability and disposition of banks to assume ordinary risks in lending would be enhanced. On the other hand, the large aggregate reserve requirements would promote a stability in the volume of deposits approaching that of a 100 per cent reserve system.

(6) Increases or reductions in bank holdings of Government securities could be better regulated with deliberate regard for their effects upon the country's volume of bank deposits and rate of spending, instead of being permitted to occur in response to other influences without regard to their monetary effects. The Certificate Reserve plan would also have definite advantages in making further additions to the public debt, if they should occur, more manageable within substantially our present institutional arrangements. A permanent market at a low interest rate would be assured for that part of the increase in debt which was to be absorbed

†Shifts of deposits between banks would result in no change in the amount of Reserve Certificates outstanding. Bank A, which gained $100 of deposits, would meet the Certificate Reserve requirement by buying $50 of Reserve Certificates from the Treasury at the next settlement date (and would meet its ordinary reserve requirement by depositing $20 with its Federal Reserve bank). Bank B, which had lost the $100 of deposits, would be required to turn in $50 of Reserve Certificates for redemption on the same settlement date (and would also have its ordinary reserve requirement reduced by $20).

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by the commercial banking system. The Reserve Certificate requirements against bank deposits would merely be raised as needed from time to time and the additional Reserve Certificates sold to the banks. If it were decided to finance additional deficits by the sale of securities directly to the Reserve Banks instead of to the commercial banks, similar certificates could be issued, with ordinary reserve requirements being raised to offset the expansion that would result in member bank reserves. The broad changes that have occurred in the environment of monetary-banking policy are not easily reversible. The old climate of opinion cannot be restored by fiat; the new monetary importance of the federal budget and of promotive credit agencies is at least as likely to grow as to decline; the enlarged federal debt, barring alterations in present monetary practices, will remain for generations. Consequently, in reviewing these changes, I have not strained to make old policies appear appropriate for new conditions. Instead I suggested that we accommodate our policies and procedures to the new environment, as by a greater resort to selective administrative controls of credit as against over-all quantitative controls, by better provision for coordinating credit and fiscal policies, and by transforming the bulk of the Treasury obligations now held by the banks into a security that would constitute a part of their required reserves.

The "Chronicle" invites comments from its readers on the proposal advanced by Dr. Seltzer in the above paper to solve our national debt problem or on any related phases of the matter. Comments should be addressed to The Editor, Commercial and Financial Chronicle. 25 Park Place, New York 8, N. Y.

First New Jersey Corp. Opens in New York City

First New Jersey Corp. has been formed with offices at 55 Liberty Street, New York City, to act as underwriters and dealers in listed and unlisted securities. Officers are Clarence K. Pistell, President; Charles D. Klinck, Vice-President and director; and Stanley M. Tracy and J. F. McNamara, directors.

Mr. Pistell for several years has been President of the Harvill Corporation, Los Angeles; Chairman of the board of directors of the Breeze Corporation of Newark, N. J., and now is a director of Pistell, Wright & Co., 40 Wall Street, New York, of which he was formerly President. Mr. Tracy is Executive Vice-President of Driver Harris Company. Mr. McNamara is sales manager for International Nickel Company and a director of Lukens Steel.

Dittmar & Co. Reopens Office in Dallas, Tex.

DALLAS, TEXAS—Dittmar & Co. of San Antonio, one of the oldest investment houses in Texas, have reopened their offices in the Dallas National Bank Building under the management of Alfred Bailey.

Mr. Bailey began his career in the investment field with Halsey, Stuart & Co. in Chicago. He was later associated with that firm in Philadelphia and more recently with Penington, Colket & Wisner. He was commissioned in the Army Air Forces in May, 1942.

Associated with Mr. Bailey in the new office will be Turner Austin who was with the firm in San Antonio.

"Our Reporter on Governments"

By JOHN T. CHIPPENDALE, JR.

The policy to be followed by the Federal Reserve Banks in conjunction with the retirement of debt by the Treasury will have an important bearing on the Government securities market. . . . The refunding operation will have its effect on the money markets, yet the action of the Central Banks will go a long way in determining whether there will be a flattening of the yield curve, or a continuation of the trend to higher prices. . . . The only point of conflict between the monetary authorities seems to be in the method of combatting the inflationary forces, since the debt retirement program results in a decrease in deposits, which is deflationary. . . .

The effects of the refunding operation through the retirement in cash of maturing and called obligations held by the commercial banks, the largest owners of these securities, will be a decrease in their positions in these issues, as well as a decline in deposits or war loan account. . . . The reserve position will not be changed since no reserves are required against Government deposits. . . . This part of the refunding program will not have any material effect on the money markets. . . .

CREDIT BASE NARROWED

Retirement of the obligations held by the Federal Reserve Banks will not only reduce deposits or war loan account but also reserve balances of member banks. . . . This will mean a narrowing of the credit base which could bring about some stiffening of money rates particularly in the shorter-term classification. . . . The money markets will be affected by this part of the debt retirement operation, through the loss of reserves. . . .

The elimination of securities held by non-bank investors does not bring about any change in deposits. . . . While war loan account will be decreased other deposits will be increased. . . . The important effect from the standpoint of the money markets is that required reserves will be larger since it is mandatory to keep reserves against individual deposits, compared with none for Government deposits. . . . This tends to narrow the money markets because of the larger required reserves. . . . Likewise cash resources of non-bank owners seeking investment will be increased, and these funds may be put to work in outstanding issues. . . . This could result in further depressing the yields of these obligations. . . .

The liquidation of the war loan account to meet the Government deficit through June 30, 1946, will probably add $3,000,000,000 to $4,000,000,000 of deposits to individual accounts, which will increase the reserve requirements of commercial banks. . . . This will narrow the money markets by enlarging the required reserves of the banking system. . . .

POLICY OF CENTRAL BANKS

Whether there will be a moderate tightening in the money markets because of the refunding operation and the meeting of the deficit out of Treasury cash balances depends upon the open market operations of the Federal Reserve Banks. . . . If the Central Banks do not purchase obligations to add reserves to the banking system to make up for those lost through the coming operations, then there will be a minor firming of money rates. . . . If this should take place it is likely that short-term rates will harden, which could bring about a 1% rate for certificates of indebtedness. . . . This would most likely indicate that interest rates have started to round off. . . .

It would also mean that the scramble for intermediate maturities of bank eligible obligations would be over since it is unlikely that the deposit institutions would continue to buy issues due in five or six years, that would give them less than ¼ of 1% more income than would be available in one-year obligations. . . .

On the other hand, if the Federal Reserve Banks through open market purchases make available to the member bank sufficient reserves to offset those lost through debt retirement and use of cash resources to meet the deficit, then there will be no change in money market conditions. . . . The demand for bank eligible issues will be greater than ever and lower yields can be expected since there will be less securities that these institutions can buy. . . .

A GOOD JOB

That the Federal Reserve Banks have been doing a good job in offsetting the return flow of currency and the increase in gold holdings is shown by their action in counteracting the change in trend in these two money market factors. . . . Since Dec. 26, 1945, when the peak for currency in circulation was reached the decline up to Feb. 20, 1946 has amounted to $694,000,000. . . . Gold stocks during that period have increased by $168,000,000, with last week's addition totalling $76,000,000. . . . Together these two factors, which add reserves to the money markets, have amounted to $862,000,000. . . . The decline in holdings of Government obligations by the Central Banks from Dec. 26, 1945, to Feb. 20, 1946, was $1,019,234,000, which more than neutralized the forces that would have added to the reserve positions of the deposit banks. . . .

REDUCING DEPOSITS

The retirement of matured and called obligations by the Government through use of Victory loan cash, indicates a desire to reduce deposits without increasing the debt burden. . . . Whether Federal will be able to convince the Treasury that deposits should be reduced through the sale of long-term obligations to ultimate investors, which would increase somewhat the debt and interest charges, remains to be seen. . . .

Nevertheless, the offering of a long-term 2¼% bond due in 1970 or 1980 would reduce deposits and would stop the sale of bank eligible issues by non-bank holders. . . . This would help the bond market and reduce bank deposits without the commercial bank acquiring more Government obligations. . . .

Also by allowing short-term rates to stiffen somewhat the pressure of bank funds seeking investment in intermediate-term obligations would be relieved and the prices of these issues would not be driven too high. . . .

MARKET CAUTIOUS

Many of the large institutions and dealers are on the sidelines pending developments in the refunding operation and clarification of reports of new money offerings in the Fall. . . . Non-bank investors continue to add somewhat to their holdings of the longest restricted bonds, although volume of trading has not been large. . . . Intermediate maturities of bank eligibles still seem to be in demand. . . . Many believe that the immediate trend of prices in Government obligations from here on will be determined largely by the policy that Federal adopts in its open market operations. . . . This has resulted in a cautious attitude toward the market. . . .

Total Market Value of Stocks and Bonds on Curb in 1945

Total market value of all stocks traded on the New York Curb Exchange at the close of 1945 advanced $3,183,990,580 to a total of $14,360,033,569 said the Exchange's report of Feb. 9 which continued:

Average price per share for each of the 863 issues was $22.73 as against $17.91 in 1944 when 883 stocks were traded. Shares outstanding increased 7,945,538 to 631,714,861, the report said.

Average price per $100 par value of bonds was up $.58 to $97.67 while the outstanding amount dropped $388,695,911 to $1,825,914,909 and total market value of the 138 issues traded showed a decline of $366,938,213 to $1,783,444,315. At Dec. 31, 1944 there were 163 bond issues, listed and unlisted, traded.

Market value of listed common stock issues was up $1,296,534,902 to $2,831,624,472, and the average price rose $5.46 to $13.56 with an increase of nine in number of such issues to 341 and an increase of 19,310,696 to 208,741,506 in the outstanding amount. Listed preferred issues had a similar trend, with market value up $50,797,625 to $496,769,619 and average price improved by $6.61 to $55.06 while their number was 6 less at 84 and the outstanding amount was off 182,793 to 9,021,452.

In the unlisted common stock section, market value advanced $1,856,985,076 to $9,125,470,999 and average price rose $5.20 to $23.80. Number of issues here dropped 11 to 309 and the outstanding amount was 7,370,438 lower at 383,288,468.

Unlisted preferreds had a market value of $1,906,168,479 off $20,327,023 under the total on Dec. 31, 1944 and an average price of $62.16 which was $6.28 ahead of that in 1944. Number of issues declined 12 to 129 and the outstanding number of shares was off 3,811,927 to 30,663,435.

Regarding the market value of listed bonds in 1945 the advices from the Curb Exchange states:

Listed bonds showed a $27,680,371 decrease in market value to $331,932,926 and an average price that was $1.65 better at $105.26. The outstanding amount of the 22 issues (one less than the close of 1944) was $315,335,435 or $31,718,100 below that in 1944.

Unlisted bonds had a market value of $1,451,511,389 which was $339,257,842 under the 1944 total. An average price of $96.08 reflected a rise of $.20. The 116 issues in this group showed an outstanding amount of $1,510,579,474 a drop of $356,977,811 under 1944 when 140 unlisted bond issues were traded.

Ohio Municipal Comment

(Continued from page 1101)

upon an inability to fill a demand that is tremendous and is apparently backed with plenty of purchasing power.

Such general economic conditions may have contributed more than we realize to a complacent acceptance of the notion that all is well throughout the economic and monetary system—that all is rosy and will not soon take a turn for the worse. Much of the current talk is reminiscent of the predictions heard in the late twenties that we "are in a New Era of lasting prosperity." In any event there is an interdependence between the confidence now held in general economic conditions over the near future, confidence in the credit of practically all municipalities and confidence in the present low money rate structure.

The danger is that such general confidence actually has caused the public, investors included, to fall into a state of lethargic complacency.

Complacency Is Dangerous

One of the benefits that might accompany a sizable drop in stock prices, should it ever materialize, would be the possibility that it might shake us out of our complacency. Perhaps it would not shake our confidence to any degree, but it may cause some investors, at least to reappraise the future outlook of business, the future of certain municipal credits or the advisability of buying very long term bonds at present high prices.

It seems logical to conclude that if anything seriously impaired our general confidence in any one of these considerations, our faith in the others would be shaken. Finally, should our confidence in the future of business be seriously impaired, it is likely that we would once again give some thought to the problems which municipalities would be called upon to face in financing relief, in collecting taxes from unemployed taxpayers, in *meeting heavy obligations at a time when revenues would not be so abundant as they are today, and these thoughts, in turn, may give rise to questioning the advisability of considering all municipal bonds "good."*

Supply of Bonds Lower in February but Higher in March

Prices continue to rise in the Ohio municipal market, almost with an abandon such as mentioned above. The supply of Ohios has been small during the past month. The year 1946 started with more new issues of Ohios scheduled for sale in January than this market has seen for several years. Issues were sold generally at higher and higher prices as the year moved along. In February fewer issues were marketed, but it appears that the supply, at least in number of issues, will increase again in March. It is too early to say whether or not this increase in supply will continue. One might expect more bonds to be sold in the spring, as weather conditions become more favorable for construction. However, the dearth of building supplies may well mean that many issues will not be sold until such time as supplies are more easily available for public construction.

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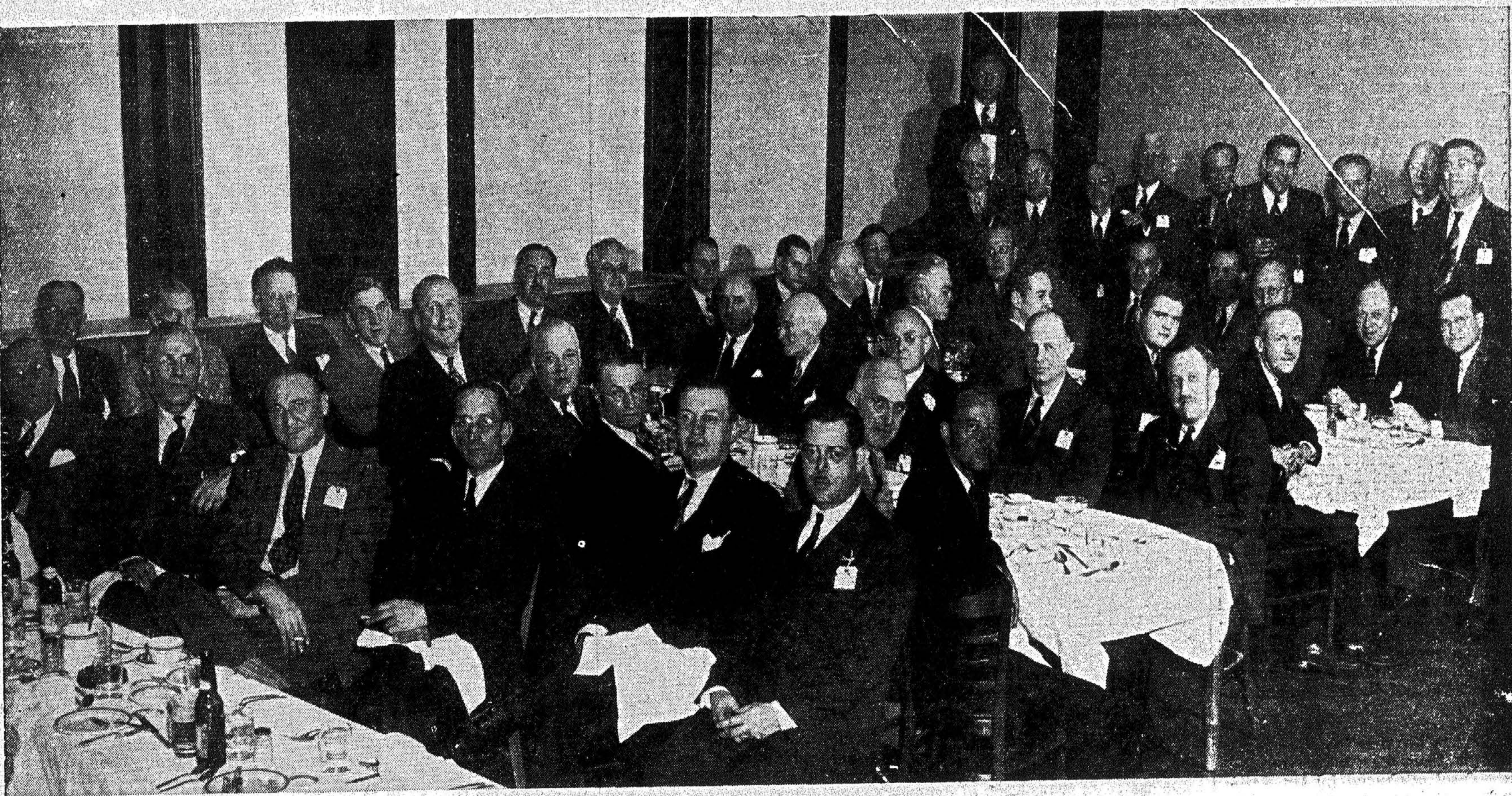
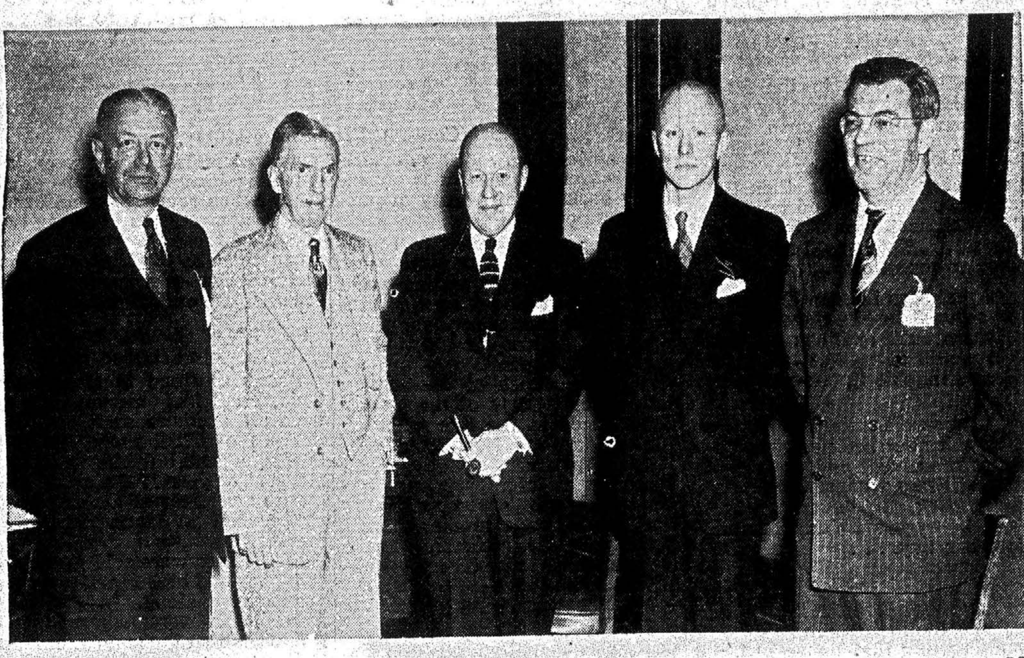
Photographed at Annual Meeting of Bond Club of Syracuse, N. Y.





Left to Right: Alvin G. Hageman, Ernest R. Mulcock, George Mason, Marshall W. Day, Wesley M. Bishop, retiring President.

New Officers for Ensuing Year

SYRACUSE, N. Y.—At a recent meeting of the Bond Club of Syracuse, the following officers, shown in the accompanying photograph, were elected for the ensuing year:

Alvin G. Hageman of the Syracuse Savings Bank, Treasurer.

Ernest R. Mulcock of E. R. Mulcock & Co., Inc., Vice-President.

George W. Mason of Halsey, Stuart & Co., President.

Marshall W. Day of George D. B. Bonbright & Co., Secretary.

Wesley M. Bishop of R. H. Johnson & Co., Horace F. Candee of Carl M. Loeb, Rhoades & Co., and Everett W. Snyder of E. W. Snyder & Co., were elected to serve on the Board of Governors.

Broker-Dealer Personnel Items

(Continued from page 1099)

ORLANDO, FLA.—**L. Dean Mather** is with **Southeastern Securities Corp.**, 304 West Adams Street.

(Special to THE FINANCIAL CHRONICLE)
PONTIAC, MICH.—**Howard H. Hobart** has been added to the staff of **A. M. Kidder & Co.**

(Special to THE FINANCIAL CHRONICLE)
PORTLAND, MAINE—**Donald C. Graffam** and **Richard K. Means** are with **Bond & Goodwin, Inc.**, 120 Exchange Street.

(Special to THE FINANCIAL CHRONICLE)
PORTLAND, MAINE—**George V. Mendall** is with **P. W. Brooks & Co., Inc.**

(Special to THE FINANCIAL CHRONICLE)
PORTLAND, MAINE—**Charles H. Carr** has become associated with **W. H. Bell & Co., Inc.**, 477 Congress Street, after serving in the U. S. Marine Corps for the past six years.

(Special to THE FINANCIAL CHRONICLE)
PORTLAND, MAINE—**Carlyle A. MacDonald** has rejoined the staff of **du Pont Homsey Co.** of Boston.

(Special to THE FINANCIAL CHRONICLE)
PORTLAND, MAINE—**Clifford H. Sinnett** has rejoined **Chas. H. Gilman & Co.**, 186 Middle Street, after serving in the U. S. Navy.

(Special to THE FINANCIAL CHRONICLE)
PORTAND, MAINE—**Andrew J. McSween** has become connected with **Maine Securities Company**, 465 Congress Street, after serving in the U. S. Army.

(Special to THE FINANCIAL CHRONICLE)
PORTLAND, MAINE—**Mark J. Crowley** is now with **Coburn & Middlebrook**, 465 Congress Street. He has been serving in the U. S. Coast Guard.

(Special to THE FINANCIAL CHRONICLE)
PORTLAND, MAINE—**Harmon P. King** has become affiliated with **Nathan C. Fay & Co.**, 208 Middle Street.

(Special to THE FINANCIAL CHRONICLE)
PORTLAND, MAINE—**Courtney H. Simpson, Jr.**, has been added to the staff of **Clifford J. Murphy Co.**, 443 Congress St. He has been serving in the U. S. Navy.

(Special to THE FINANCIAL CHRONICLE)
PORTLAND, OREG.—**Maurice B. Kinney and Ellis T. Young** are now with **Foster & Marshall**, Porter Building. Both previously were with Conrad, Bruce & Co.

(Special to THE FINANCIAL CHRONICLE)
ROCK HILL, S. C.—**William C. McSweeney** is connected with **Kirchofer & Arnold, Inc.**, of Raleigh, N. C.

(Special to THE FINANCIAL CHRONICLE)
ST. LOUIS, MO.—**Eugene B. Kelly** has joined the staff of **Slayton & Company, Inc.**, 111 North Fourth Street, after serving in the U. S. Navy.

(Special to THE FINANCIAL CHRONICLE)
ST. LOUIS, MO.—**Eugene B. Kelly** and **Walter H. H. Schaeffer** are with **Slayton & Co., Inc.**, 111 North Fourth Street.

(Special to THE FINANCIAL CHRONICLE)
ST. LOUIS, MO.—**Robert E. Seitz** has become affiliated with **Taussig, Day & Company, Inc.**, 506 Olive Street, after serving in the U. S. Army.

(Special to THE FINANCIAL CHRONICLE)
ST. PAUL, MINN.—**George W. Dean** has rejoined **Harold E. Wood & Co.**, Endicott Building, after serving in the armed forces.

(Special to THE FINANCIAL CHRONICLE)
ST. PETERSBURG, FLA.—**Ethlyn F. Carpenter** is with **Merrill Lynch, Pierce, Fenner & Beane**, Florida National Bank Building.

(Special to THE FINANCIAL CHRONICLE)
ST. PETERSBURG, FLA.—**Robert P. Mathis** is now with **Allen and Company** of Lakeland.

(Special to THE FINANCIAL CHRONICLE)
ST. PETERSBURG, FLA.—**George L. Roux, Jr.**, is connected with the **Ranson-Davidson Co., Inc.**, Florida National Bank Building.

(Special to THE FINANCIAL CHRONICLE)
SHREVEPORT, LA.—**Francis C. Payne** is with **Merrill Lynch, Pierce, Fenner & Beane**, 608 Edwards Street.

(Special to THE FINANCIAL CHRONICLE)
SHEBOYAN, WIS.—**Lawrence L. Bray** and **Lester E. Raatz** are with **Heronymus & Co.**, Security National Bank Building.

(Special to THE FINANCIAL CHRONICLE)
SOUTH BEND, IND.—**Charles Landis** and **Robert Sweeney** have become affiliated with **Albert McGann Securities Co., Inc.**, 131 West Washington Avenue.

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Evils of Compulsory Military Training

(Continued from page 1089)

most army officers. I have analyzed the problem of compulsory military training carefully and impartially. I am convinced of the soundness of my views, and believe that it is my duty to bring them to the attention of the people of the country.

After studying the problem, and after listening to the representatives of the War Department I am depressed and appalled that the army seems to have learned little during the past 30 years. I am unable to find a single argument presented by the War Department in favor of compulsory military training that will stand up under close scrutiny. I shall present my conclusions under five headings:

Does Not Assure National Scrutiny

The first is the STRICTLY MILITARY VALUE OF THAT TRAINING. This program will not assure our national security. In its approach to this problem the army is running true to form. It is always one or two wars behind in its thinking. World War I had been going on for three years before we got into it, yet we were unprepared with any new techniques and had to rely upon the British and the French to teach us how to fight that war. We came out of that war with the nucleus of a revolutionary new weapon—air power—but for 20 years the army fumbled its potentialities. We had, in General Mitchell, a man of genius who called the turn, even then, on how air power must develop. We had the engineering genius and the productive capacity to develop the best planes in the world. Under the leadership of Congressman Collins we had developed the flying fortress which constituted a new, long-range weapon of great power. Our young men took to flying like ducks to water and we could easily have developed a reserve of fifty thousand or more pilots at our universities, as we did later, but too late. We had an unlimited potential reserve of mechanics. We had an unlimited supply of gasoline for training purposes which other nations lacked. Had the army possessed the vision we might have out-Goeringed Goering, and have developed a striking force of such power that war might have been avoided entirely, or at least have been brought to an earlier end. But the army leadership fumbled the situation, eliminated General Mitchell, shackled air power to the foot soldier, committed itself to action on mass armies, and thereby served notice on the world that it would take us two or three years to build up a mass army if war should come. We committed ourselves to the wrong kind of war. That was the first failure of our military policy, and full responsibility rests on the army, and not on Congress or on the people.

The Effect of the Atom Bomb

Again we have developed a new weapon in atomic power, and again the army returns to the same techniques that it taught after World War I. The development of the atomic bomb constitutes a revolution in military science more sweeping than the invention of gunpowder. All of our preconceived ideas have been rendered obsolete, and must be re-evaluated in the light of the new weapon. General MacArthur is reported to have stated that an army of 100,000 men, using the new weapons, would be adequate for our security. General Arnold has stated repeatedly that the atomic bomb makes obsolete even the air power developed during the war. The navy has not even determined whether the bomb has made battleships obsolete, and cannot know until tests have been completed. There is some reason to believe that the battleship is obsolete even without the atomic bomb. The army has had no opportunity to adjust its thinking to all of the implications of the atomic bomb. There is no evidence that it has made a formal "estimate of the situation"—no thorough military analysis of the problem. It has not had time to determine the nature of the new weapons that will be used in the future, nor the techniques for their use, nor the training doctrines to be adopted in such techniques, nor, consequently, the total man power necessary to service such weapons. From its own evidence it is planning on running men through its training camps, teaching them the use of the bayonet and the rifle, the operation of combat teams and all of the paraphernalia of the techniques of World War II, when it should be apparent to anyone that World War III will not conform in any sense to World War II.

National Security Not Decided by Army Alone

As a matter of fact, the problem of national security cannot be decided by the army alone, nor by the navy alone, nor by the air force alone. Congress is now considering legislation for some kind of unification of the three forces. The problem of national defense cannot be decided effectively until such unification has been completed. We must develop a new military policy based on the new weapons and integrated with our international policy. The problem cannot be decided piecemeal, as the army is trying to do, but must be decided by Congress through the combined efforts of representatives of the three forces, our scientists, our educators and our industrialists. The army has looked in the back of the book, put its finger on the same old answer "compulsory military training" and is trying to work the problem backward to force that answer to fit the problem of the atomic bomb. As a matter of fact, not only is that not the right answer, but the problem is no longer in the same old book. Before any of the basic factors of the problem have been determined it demands that Congress and the people of the country sign a blank check, to be filled in at its own discretion, and to any amount down to the last American boy. Why is it in such a hurry? We have an ample reserve to serve until the problem can be solved intelligently. No enemy is about to strike us. We can only conclude that the army is trying to railroad this legislation through on a wave of postwar hysteria.

The entire pattern of training presented in the War Department program is identical with the one it used to fight World War II.

Manpower Not the Answer

It presents the fallacious argument that the more terrible the weapon the greater the manpower necessary to service the weapon. If we carry that argument to its logical conclusion, perhaps with the atomic bomb, death rays, and bacteria as weapons, every man, woman and child in the country may have to be put into uniform, and the entire country be subjected to compulsory training.

It argues that wars have always been won with foot soldiers and will always be won with foot soldiers. This is a doctrine as dangerous as the "Maginot Line" complex which led to the undoing of France. Let the army remember that millions of Japanese foot soldiers, some of the best fighters of the world, were by-passed in China and never fired a shot, because air power had already defeated Japan.

It insists that the new army will require more and more skilled technicians, and then proposes to siphon off our students from universities, and our technicians from industry, and to transfer them to training camps to teach them rudiments of training of a foot soldier, or such limited techniques as could be taught in camps. It did the same during the war when it emasculated our school system by withdrawing medical and technical students from their college training, only to scatter them far and wide, at other institutions and at government expense, with resultant confusion and destruction in the continuity of such training.

It speaks of a technical army, but forgets that the 18-year-old boys have no technical training, that most of them have not determined at that age what their aptitudes and interests really are, and that concentration on army techniques may interrupt, rather than facilitate, the development of the individual specialties that they would require as citizens or as soldiers. The insistence on training 18-year-old boys is a carry-over from the feudal era when all that was required of a soldier was the ability to march, to shoot a rifle, to ride a horse, or to handle a saber. The concept has no reality in training a technical army, in which men of greater maturity and broader experience would be more valuable than the 18-year-old boy. The bulk of the training received by such boys would be wasted after their return to civil life when they had developed specialties connected with their civil occupations.

Even the layman can grasp the fact that the next war—if there is a next war—will be sudden, short and devastating. The army asks for a force comprising "strength in being," and "immediately available." The proposed program will give neither. The terms are relative. If we have not time to train an army after war starts, as the army rightly contends, neither have we the time to mobilize mass armies trained by the system, nor to retrain them in the latest techniques, nor to transport them to any battlefield anywhere. There will probably never again be battlefields" in the old sense. If we are attacked we may never know who hit us. The attack will come suddenly, probably by sabotage. Like the victim of a free-for-all brawl, we will sit amid our ruins and demand "who threw that brick"? Our only defense would be retaliation in kind, and immediately, and if we cannot discover who the attacker was we will be utterly helpless. The mass armies trained by the proposed program would be completely bypassed as the Jap armies were in China.

If we are to defend our country under future conditions it seems reasonable to suppose that we shall need two types of trained men. The first type would be in the nature of a military police force for the occupation of foreign territories. These could be trained by the Regular Army or the National Guard without compulsory military training. The second would be a small, highly mobile, highly technical, tremendously powerful striking force, using the newest types of weapons. That force must be in existence, constantly alerted, sleeping on its arms, **as of now.**

A reserve force of air power of fifty thousand pilots and mechanics, with planes to back them up, might have been all we needed in 1941. A reserve force of as many, trained in the new techniques, might be all the country requires now. Perhaps the estimated strength of 100,000 attributed to General MacArthur will be adequate. Perhaps we need two or three times that number. It is obvious that we cannot use a reserve of from six to ten million men for any such force. We cannot know until detailed studies have been completed. The army is going off half cocked.

Army Not Democratic

My second reason for objecting to the program has to do with the PRESERVATION OF OUR DEMOCRATIC INSTITUTIONS. We have fought our wars for the preservation of democracy and personal freedom, and the army has been the means to that end, and not the end in itself. If we are sincerely interested in the preservation of democracy we must be convinced that democracy will be strengthened by the program, and not weakened.

The army has not looked at itself in the mirror for 150 years. The country has never taken a close look at the army. Such a close look will show that the army is an anachronism. It is a feudalistic organization carried over into the atomic age. It has inherited most of its feudal concepts from Baron Von Steuben, the Prussian drillmaster in Washington's army, and the rest from the British Army. Our navy is in about the same situation.

The army's most prominent characteristic is its medieval caste system, which sets up unsurmountable barriers between the officer aristocracy and the enlisted man. This is not an aristocracy by birth, but by act of Congress. It teaches blind obedience to orders of an aristocratic ruling class. It promotes class consciousness and class cleavages. It creates bitterness from one end of the army to the other. It is undemocratic and un-American.

The army's judicial system is not a system of justice at all, but a system of military discipline and punishment, carried over from the days of Gustavus Adolphus by way of the British Army. Under this system the commander is often accuser, judge, jury, court of appeals and executioner. The enlisted man, who as a civilian in our democracy can sit on a jury to try his fellow-man, and can be tried by a jury of his peers, cannot sit on a military court, and must submit to trial by a "packed" court of officers, who are interested primarily in military discipline and only incidentally in abstract justice. The court procedures are inherited from the feudal era, and the "brass" and authority are frightening. If convicted of even a minor offense our American boy suffers the humiliation of being herded around the military reservation on menial work, by another American boy carrying a loaded gun. The Georgia chain gangs had nothing more humiliating to offer. The army is beginning to see dimly that all is not well with its system of justice, and proposes a modified form for the trainees. But why have two different standards of justice, one for the GI and the other for the trainee, when both are American citizens living under the same Constitution?

The basic philosophies of our army leadership are as autocratic and absolutist as their techniques of control. The army speaks the language of democracy, but it has little understanding of the spirit of democracy, and has developed no techniques for the practical realization of democracy. The army leadership is class-conscious, ultra-conservative, absolutist. The individual has no entity, but exists to serve the machine. It is significant that this bill is, itself, being superimposed upon the army by the army autocracy, and not by the GI. The training program of the army is no more democratic than Hitler's compulsory training program was democratic. It is not democracy but regimentation. It will result in the standardization of our American youth.

It may be argued that an army cannot be democratic. That argument is open to question, as no form of democratic control has even been tried. There is certainly a broad area in which new concepts of democracy might well be tried. Certainly, if the machinery of control over the army is nondemocratic, and if the indoctrination of the army under our totalitarian leadership is non-democratic, there can be little hope that democracy will survive. Totalitarianism has no geographical frontiers. It is a disease that can flourish anywhere. The army as at present constituted, with its caste system, its feudal concepts of justice, its reactionary philosophies, and its lack of understanding of democracy offers an excellent breeding ground for totalitarianism. At the end of the course of training our boys will have less understanding of democracy, instead of more.

Begin Program at West Point

At this point I feel compelled to state that any program designed to infuse a degree of democracy into the army must begin at West Point. I am a graduate of West Point, and my son is also a graduate. I am deeply grateful for all that West Point has done for me. I am deeply conscious of the high idealism of its graduates, and of the inestimable services rendered by its leaders. Nevertheless, I would be failing in my duty if I did not point out that at West Point are perpetuated and inculcated the army caste system, class consciousness and class barriers, blind obedience to an officer aristocracy and absolutism. From West Point these extraneous philosophies permeate the entire military establishment. This is a condition which must receive recognition when our military policy is under consideration.

Do Not Need Army as a Reformatory

My third objection to the army training program is based on concern over the OVER-ALL EFFECTS OF THE PROGRAM ON THE YOUNG MEN OF THE COUNTRY. Our army leaders are trying to *sugar-coat the pill. They* are trying to sell us a *pig* in a poke, by emphasizing the byproducts in education, health, recreation and discipline. This raises a basic conflict in attitudes which the army cannot resolve. The army is not, and cannot be, a benign, socially-conscious institution acting as god-father to our youth. **This is no youth movement.** Our youth can learn to clean their teeth, do third grade arithmetic, or the meaning of true discipline, in our homes and in our schools. We do not need to turn the army into a reformatory for the standardization of military discipline.

An army has only one purpose **—to kill.** Its training program must be directed toward teaching how to kill, by the most effective and brutal means. Anything else is pure eye-wash. Every man graduating from that program must, if the training is effective, bear the indelible stamp of the army's major objective to destroy. Not only must he be taught to kill but he must think of killing someone. Killing cannot be accomplished in a vacuum. Some potential enemy must be kept before him.

The army has no social techniques and no social responsibility. Army camps have been army camps since before the days of the Greek Phalanx. The restraints that our boys find in their homes, in their schools and colleges, and in their social environment, do not exist in army camps. They would be uprooted from their normal environment and transplanted to an environment totally foreign to our social structure. There they would be placed under the tutelage of regular army men, fine soldiers, indeed, but much older than themselves, many of whom had endured the hardening process of two wars, and who at best have acquired a certain mature cynicism which sets them apart from the rest of our population.

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Evils of Compulsory Military Training

(Continued from page 1119)

These are the men who would be in intimate contact with o[illegible]ees. The commanders, under our caste system, are too detached from the men to influence the shaping of their characters except in the direction of command and absolutism. The responsib[illegible] the commander for the morals of his men extends to the lectures on the evils of venereal diseases, to making contraceptives easily available, to providing prompt prophylaxis, and to punishing those who fail to take such treatment. The chaplains labor diligently to safeguard the morals of the men, but they can serve only the minority who come to them, whereas the influence of the military environment is constant. Such disregard for morality may be excusable in time of war when death is imminent at any moment, but it is hardly the environment in which we propose to condition our youth for a full year of their lives. The establishment of a group of civilian advisors in the Pentagon Building, or of educational advisors at the camps, as the army proposes, cannot be a substitute for the normal social environment in the home, the school and the civil community.

Will Not Develop Initiative or Personal Responsibility

Parents and school authorities are eager to develop within our boys during their formative years a sense of personal responsibility and initiative as they approach manhood. In the camps every hour of the day would be regulated, every activity would be "by order," all need for independent thinking would be eliminated. The sense of personal responsibility and of initiative required in civil life, would have little opportunity to develop. At the end of the training they would be less well prepared to fit themselves into their civilian pursuits, instead of better prepared, and would require a period of reorientation to break them of their habit of leaning on "superiors" for orders.

For all of its emphasis on scientific psychological testing and classification of personnel, the army has little to be proud of in its actual war record. At a time when all of these procedures were in operation and were well understood, and when technically trained men were at a premium, the army wasted as much as 50% of its skills. The system was no better than the men who had to make it work, and much hostility and indifference to scie[illegible] sonnel procedures has always existed in the army. The army used the excuse of "military necessity." It is too much to expect that the army has suddenly reformed. For all of its techniques it will still waste men.

If we wish evidence of lack of interest by the army in the welfare of our 18-year-old boys, we have only to remember how the army broke faith with the people of the country and with these boys, by shipping them to battle even before they had completed their basic training, and after it had promised that they would be given a full year's conditioning before being committed to action. That breach of faith was inexcusable. Again the army tried to excuse it on the ground of "military necessity," but "military necessity" covers a multitude of sins.

Driving a Wedge Between People and Army

There is another phase of this conditioning at army camps that should be investigated. The United States is entering a critical period in its history which, if widespread disorders are to be avoided, will require all of our statesmanship, our sense of national unity, and our spirit of cooperation. During the depression of 1929 the army gave much attention to training for the suppression of internal disorders. Another such period may be upon us, if reason does not come to our assistance. Mass armies, while useless for foreign wars, are ideally suited for the suppression of domestic disorders. The army never had confidence in the National Guard for such duty, because the National Guard was too close to the people to be considered reliable. Now the army proposes to train manpower for the National Guard and the Organized Reserves in its own absolutist philosophies, and a new type of reservist will be developed. A wedge will be driven between the people and the military. I believe that the people of the United States have a right to demand to know whether the real purpose behind this program of compulsory military training is to place weapons in the hands of our 18-year-old trainees to suppress the veterans of World War II who fought for the four freedoms.

The training program will unquestionably produce a different type of American citizen. It is an appalling thought that eventually our entire adult male population will have been subjected to this conditioning process. What qualities does the army possess that it dares offer itself for the task of "making our American youth? Knowing the army for what it really is, I insist that we dare not turn our youth over to such leadership as it is now constituted without grave danger to our American democracy.

Endangering International Peace

My fourth reason is based upon the INTERNATIONAL ASPECTS OF COMPULSORY TRAINING. In the first place, we now appear on the stage as the villains of the plot. We now stand out as the militaristic nation. We have large forces still under arms and have great reserves of man-power and materiel. We have held bases all over the world pointed at the heart of other nations. We have troops in Germany and Japan, where we are in contact with both British and Russian imperialism. We used the atomic bomb when Japan was already defeated and there was no longer any justification for its use—the most cold-blooded attack in the history of the world, and one that we will remember to our shame. We give every evidence of being willing to use it again if it suits our purpose. We have built up the fiction that we are a "peace-loving" nation, when as a matter of fact we have had an uncanny knack of getting into every big war that has come along. Now at a time when the United States should assume a moral leadership among the nations of the world, our army proposes that we serve notice on the world that we intend to arm every male in the country. We, the great "peace-loving" nation, brand ourselves as hypocrites and liars. We start a race in armaments all over again, and lay the foundations for World War III which our army is already talking about.

In the second place, such a rearmament race is futile. It can be compared with the decision to keep our fleet in Pearl Harbor, where it was an easy target for the enemy, and fooled no one but ourselves. Mass armies trained by this program will fool no one but ourselves. We merely serve notice on the world that we have, for the second time, committed ourselves in advance to the wrong kind of armament program, which will give all of the advantage to the enemy.

The Training Would Be "Boondoggling"

My final reason is that THIS PROGRAM, EVEN IF PASSED, IS UNENFORCEABLE. The army states that it does not make national policies, yet it is trying to force through this program which will change the entire complexion of American life. The people generally have had no opportunity to learn the truth. Many organizations representing millions of members are strongly opposed to it. Each year a million boys, backed by millions of parents and relatives, will resent the compulsory draft, especially if training is known to be unrealistic for a modern war, and becomes little more than "boon-doggling." We may expect many draft evasions, and many A.W.O.L.'s and desertions. The program will be more difficult to enforce than Prohibition. The American people resent compulsion. Resistence to compulsion will result in another breakdown in law enforcement. How far is Congress prepared to go in forcing this program upon the people in the face of certain resistance? Public opinion simply will not back it. The army must find another solution for the problem of national defense.

If we adopt this army program, therefore, we defeat the very ends it is intended to accomplish. We fail to achieve security, we waste our resources, we waste the lives of our 18-year-old boys, we jeopardize democracy, we transform our entire civilization into something we have considered un-American, we set up a system of compulsion which our citizens will not support, we shackle ourselves to an obsolete military philosophy, and we pave the way to another war. We gain one advantage which has not been mentioned, but which may be in the minds of some of our leaders. As suggested by General Hershey, it is better to keep men in the army than to keep them in bread lines or on a dole. Perhaps this is what the army has in mind.

It is appropriate at this time to say a word about the alternative proposal of the American Legion. If the army hasn't thought its way through the problem with all facilities available, how could it be possible for the American Legion, which has neither information nor responsibility to think its way through? Its proposal has all of the defects of the army program, and some of its own.

The National Guard

The proposal to use the National Guard as a training cadre is unsound. The National Guard can still train a military police force for home defense or occupational duty, or it may even cover a limited field of training for a striking force, but it cannot furnish technical training, on a mass basis, under a system of universal service. Technical training cannot be conducted on a blanket, geographical basis. Any particular area will contain men with a great variety of skills, many of which would be desperately needed elsewhere, and the scattered Guard units would be able to furnish training for more than a small minority of such skills. To make the situation more difficult, the shifting nature of our population would progressively break up any course of training which individuals had undertaken, as it would be rare that they could continue such training at their new location. This is the weak spot of the entire proposal. There are many other weaknesses. We would force boys in distant farm or ranch areas to travel great distances, in snow or rain perhaps, to meet particular Guard training schedules. We would be setting up class legislation by giving the advantage for reserve commissions to those who could afford college training. We would force the average American boy who could not afford college, or who could not take training in the Guard, to join the regular army, where, as a matter of fact, he could not depend on receiving the proper technical training for a future war, since the army is not organized to do that job.

Again the Legion is trying to force the wrong answer without having read the problem. The purpose of the Legion proposal is not to preserve the United States, but is a political move to preserve the National Guard and the Organized Reserves. It has become a race to see who shall run the new conscript army, the Regular Army, or the National Guard and the Organized Reserves backed by the power of the Legion. National defense is being kicked around like a football, by the "ins" and the "outs" who are struggling for supremacy.

Restudy National Defense

The Veterans League of America which I represent, demands, therefore, that there be a complete restudy of the problem of national defense and of our military policy, by a commission representing the army, navy, air forces, scientists, educators, and industrialists. We offer the following program:

(a) Any military policy which we adopt at the present time must be designed to serve only during the period of transition to a new world order, and must facilitate that transition. As a first step we insist that our government initiate action to abolish conscription in all countries of the world and thus relieve the threats to peace inherent in conscription, and at the same time remove the tremendous tax burdens which compulsory training will impose on the country.

(b) Believing that another world war will mean the suicide of civilization, we demand that warfare be outlawed hereafter, and not merely the weapons of war. We support the development of a stronger world organization, on the foundations of the United Nations Organization, which will be responsible, exclusively, for the development and use of the atomic bomb and other weapons of terror and destruction, with power to cross frontiers to prevent violations. We recommend that these weapons be publicized by radio, newspapers, motion pictures, and public demonstrations to convince the peoples of the world that another world war means world suicide.

(c) Since peace must rest on law, we recommend that as one means to secure peace, an international court, based on the precedents set by the Neurenberg trials, be established before which may be indicted, tried and punished, in advance, all citizens of all countries—army leaders, radio commentators, newspaper editors, industrialists, leaders of special groups, etc.—who incite to war, just as we punish those who incite to riot.

(d) Agreeing that we must assure our national safety until the new international order is established, we recommend that our forces be reorganized to make use of all of the newest weapons—the atomic bomb, air power, V-bombs etc. We insist, however, that all new developments be publicized, and held in trust for the new international organization until such time as it is established. Secret competition in the new weapons of terror can only lead to suspicion and certain war.

(e) We recommend that the reorganization of the army itself proceed along the following general lines:

1. Determine from the techniques required for using the new weapons the minimum force required, and recruit such personnel through voluntary enlistment.

2. Organize the personnel thus recruited into a new striking force of trained experts.

3. Eliminate all caste differentiations between officers and enlisted men, and organize them into a homogeneous corps of specialists, with a clear channel of promotion from bottom to top.

4. Such heirarchy of authority as would be necessary to rest upon demonstrated ability and positions of responsibility, and not upon rank alone.

5. Reorganize West Point and other schools of the army system into a coordinated training cadre for the design, production, supply, administration and operation of such a highly technical corps.

6. Eliminate the sadistic, degrading, sophomoric Plebe system and the caste system at West Point.

7. Integrate the army training program with training at schools and colleges, and in industry, to assure as little interference as possible with normal activities of individuals.

8. Establish at school and colleges, civilian as well as military, instruction in the underlying spirit of democracy and in democratic processes, according to doctrines developed by our educators, enlightened citizens, representatives of the people, and students themselves. Requrie all military personnel to participate in such training.

9. Establish a new system of military justice by setting up permanent courts entirely apart from the military heirarchy of command, staffed by trained judges, following enlightened laws, with expert counsel furnished the accused to protect his rights. Require that commanders as well as subordinates be summoned before such courts for violations of basic principles of justice.

10. Establish pay schedules attractive enough to offer a career to those individuals who are recruited for the military corps.

11. Make such use of the National Guard as may be practicable as part of the striking force. Reorganize the National Guard otherwise as a military police force, and as local defense and fire and bomb wardens, to maintain order locally if we are subjected to an attack from without.

Such a military organization would, indeed, be a new "regular army." It would make a military career so attractive that there would be no need for compulsory military training. It would eliminate the last vestige of feudalism in the army, and transform the army into a real "people" army, indoctrinated with the spirit of democracy, justly administered, and adequate for national defense during the period of transition to the new international order. It would prepare the way for the easy transference of its potentialities to the international organization, contribute to the final outlawing of war, and provide training in the new sources of atomic power for use in peace instead of in war.

R. M. Stewart Heads Development Company

The election of R. McLean Stewart as President of South American Development Co., Inc., was announced. Established in 1896, the company owns and operates extensive gold and copper mining properties in Ecuador and in British Columbia. Its principal offices are in New York. Mr. Stewart, who has been a Vice President and Director of Harriman Ripley & Co., Inc., for the past several years, has resigned from that company and, after March 1, will devote all of his time to the affairs of South American Development Co. and its affiliated enterprises including Cotopaxi Exploration Co. and Kelowna Exploration Co., Ltd., of which he has also been elected President.

R. McLean Stewart

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Removal of Price Control

(Continued from page 1087)

difficult tasks is to persuade our top men to stay on the job until their work is done. Almost all of them made far more money before the war than they receive from the government. And, as Mr. Bowles said last week, working conditions in Washington are not too good. He had just been facing one of his periodic intergovernmental difficulties. As he emerged from the White House, a reporter asked him if he still was with the government. "Yes," he replied, "I am still with the government. The pay is good but working conditions are lousy!"

The last thing any top executive at OPA wants is to make his present job his life work.

From time to time we hear also that there are men in OPA who, because of their social philosophy, want price control to become permanent. On that issue I am certain that a vote among top OPA executives would be as unanimous as a vote on the subject taken here tonight. There would be no votes for permanence.

When Should Controls Be Removed?

On one issue, and only one issue, might we be in disagreement; that is as to the time when controls should be removed.

The very powerful National Association of Manufacturers last November voted for removal of all controls by February 15. . . . that was a week ago last Friday. The Association is now spending a sum reported by Drew Pearson to be two million dollars, trying to persuade the American people, through advertising, that it is in their interest that price controls be ended at once. I am very certain that if their fund amounted to twenty million, their advertising campaign would be a failure. In a quarter of a century spent in advertising, I learned one important thing: to advertise successfully you have to have something that will serve the public well if it is purchased. The NAM doesn't have a salable product. The American people are not in the market for economic tragedy.

If economic history teaches us anything it makes crystal clear that inflationary pressures do not end when war ends. In World War I, without price control, living costs rose 62 per cent; but after the Armistice, in spite of the unrestricted inflation that had taken place during the war, consumer prices went on up until in April, 1920, they were 108.5% above prewar levels. Forty-three per cent of the total inflation came *after the Armistice*.

Business men were extremely well satisfied during the rise. In addition to making operating profits, they got inventory profits that made their operating profits hardly worth looking at. Imagine having your inventories grown 40 to 50% in value in a year and a half. All you needed to get rich was a big inventory.

When prices rise on war's inflationary pressures, however, they never stay up. And in May, 1920, they collapsed, bringing our whole economic structure down about our ears. Prices fell over 40% in 13 short months. And what a cost the American people paid for the postwar inflation!

Corporation profits of 6 billion 400 million in 1919 turned to losses of 55 million in 1921, and in the next five years, 106,000 businesses failed—40% more than had failed in the last five years before the war. Business bankruptcies were at the rate of 20,000 a year. By way of contrast, I may say that in 1945, amid the widespread hardships created by OPA, just 810 businesses failed. If you doubt these figures, consult Dun and Bradstreet. It is they who keep the records of business fatalities.

Economic suffering, however, was not confined to businesses. Factory employment dropped 31%; factory payrolls shrank 44%. And unemployment increased by 5,624,000 just when the nation needed to absorb discharged veterans in civilian jobs.

Building costs rose 145% in two years, resulting in a buyers' strike and the postwar building boom lasted only one year. Over 400,000 families in the meantime had bought or built new homes at highly inflated prices, and great numbers lost their homes, and with them their wartime savings, through mortgage foreclosures.

Patriotic people who had bought Liberty Bonds to "help keep the world safe for democracy" and all owners of savings accounts saw their holdings drop 40% in value in two short years.

Farmers, however, were hit hardest of all. Farm prices collapsed. Potatoes, for example, that sold for $6 a bushel in May, 1920, sold for $1.25 a bushel one year later. Cotton, that sold for 37½ cents a pound, one year later sold for 9½ cents. Average farm incomes dropped from $1,360 in 1919 to $480 in 1921.

In the heyday of the inflation, farmers were next door to heaven. As money rolled in they built the extra rooms on their houses they had wanted so long, or erected new silos or barns. Many reached out and enlarged their acreage. With money flowing in, it would take only a few years to pay off the mortgages they placed on their farms to get the needed cash.

Result: In the next five years, 453,000 farmers lost their farms through mortgage foreclosures.

If those were just statistics it would not matter; but wrapped up in them was stark tragedy for millions of Americans. Imagine the sleepless nights of worry spent by the 106,000 business men who failed, and by the hundreds of thousands of others whose profits turned to losses; by the 5,600,000 extra unemployed; by the workers who kept their jobs but saw their incomes shrink 44%; by the 453,000 farmers and their families who saw not only their homes but their jobs go out of the window, because of forces over which they had not the slightest control.

No thank you, Mr. Wason, of the NAM, the American people would not buy your bill of goods if you had a hundred million to spend for advertising. You never could convince the American people that it would be to their advantage to go through that kind of a wringer again.

Would we go through a wringer again if we followed Mr. Wason's advice? Let us examine the probabilities.

Present Situation

The war that put the American people through the wringer in 1919, 1920, and 1921 cost a total of $32 billions. The recent war cost $301 billions—almost 10 times as much. The truth is that our military expenditure in the first year after V-J Day will total $41 billions, or $9 billions more than the *total* cost of World War I. And yet some people tell us the war is over and we can with blithe spirits throw off the obstacles of controlled prices and return to normalcy.

"Normalcy" — remember that word? Remember what happened when we returned to it last time!

During World War I, currency in circulation, under the stimulus of war financing, rose from $3.1 billion dollars to $4.9 billions—a total rise of $1.8 billions. During the recent war, currency in circulation rose from $7.2 billions to $28.2 billions—a total rise of $21 billions, or more than 11 times the rise of World War I.

Balances in checking accounts in banks—the foundation of our other form of money—rose in World War I from $10.1 billions to $14.8 billions, a total rise of $4.7 billions. In World War II, they rose from $27.4 billions to $80.5 billions — a total rise of $53.1 billion — or almost 12 times as much as in World War I.

The public's spendable income in the last six months of 1945 was at the rate of $132 billion a year, up 91% from $69 billions in 1939.

In the last war the public saved a total of $27 billions. This money, hanging over the market, was an important factor in forcing prices still higher, when consumers became convinced that inflation had not ended with the war's end and set out to buy for future needs in advance of anticipated price rises. By way of comparison, I may say that in World War II, savings of the public totaled $145 billions, or almost 4½ times as much as in World War I.

Finally let me tell you this: World War I took only 25% of total production for war. World War II took 45%. Obviously the task of reconversion this time has been far more difficult and time consuming.

I am sure there is not a man in this room who can view these facts and not agree that postwar inflationary pressures this time are far more menacing than those that brought disaster to the American people in 1919, 1920 and 1921. To stick our heads in the sands of unreasoned confidence and deny the existence of these pressures would be the height of folly. Indeed, should the American people be misled by the advertisements of the National Manufacturers' Association and join the leaders of the NAM whose heads are in the sand, they never would forgive the NAM for the disaster that would follow. It would be a blow to public confidence in business leadership which it would take years to wipe out. Fortunately the American people show no signs of following such blind leadership.

If *now* is not the time to get rid of controls, when *can* we get rid of them? It is difficult to give the question a calendar date answer. Our economy never was in so fluid a state as at present. Economic forecasting never involved so many hazards.

Mistake About Deflationary Forces

Almost every business man, public official and economist predicted that after V-J Day strong deflationary forces would be set in motion. Unemployment was supposed to reach a total of from 4 to 6 million, which would spread to a sense of economic insecurity and make the public timid about buying. Retail sales would fall; prices would drop below ceilings. We could get rid of the subsidies without raising the cost of living and by rapid decontrol, bring wartime price regulation to an end.

Production of raw metals, for example, had expanded largely during the war. It was believed that we could get out of most raw metal controls before the end of 1945. Ceilings were removed on most forms of aluminum and magnesium and on stainless steel. But that was as far as we could go. "Business Week" reported toward the end of last year, "Without any question the lid would blow" on materials and parts prices "but for OPA restraints."

That still is true.

Production of foods rose 27% during the war. When the government cancelled many war contracts and public buying power declined, it was anticipated that most food price ceilings could be suspended and later removed. Rapid decontrol was predicted for the first six months of 1946. Actually public demand for food has stayed at a very high level.

In the face of an all-time peak crop of white potatoes, we were able to remove ceilings without serious difficulty. But when, in the face of another bumper crop we suspended ceilings on citrus fruits, prices shot upward. Ceilings had to be restored. With automobiles, radios, refrigerators, washing machines, etc., still not available in substantial quantities, the public's buying power has proved too great for removal of many food ceilings without price inflation.

Unemployment did not, as anticipated, rise from 4 to 6 millions after V-J Day. Employment instead stayed 2 millions above 1941 levels, 6½ millions above 1939 levels. The public's spendable income stayed 31% above 1941 levels, 91% above those of 1939. Instead of showing timidly in spending, the public at holiday time went into the greatest spending spree in history and stripped the stores almost bare of merchandise. Department store sales in December were 12% above those of 1939.

Demand for Goods on a Higher Level

These developments put an entirely new aspect on the problem of decontrol. They made it clear that the demand we must balance to get rid of controls without inflation is not the demand of 1939, but demand on a new and much higher level.

If all we had to do was to balance the 1939 demand for goods, we would be out of many controls by now for in November, 1945—four months after V-J Day — we produced goods at a greater rate than ever was reached when the nation was not actively at war. The rate of output was 1% above that of 1941, 51% above that of 1939, our last real prewar year. In those four brief months, according to the Director of War Mobilization and Reconversion, we performed the production miracle of increasing the rate of output of civilian goods by $20 billions a year.

Producers of reconversion goods such as automobiles, radios, refrigerators, etc., still have their difficulties. Widespread labor disputes have crippled their operations. Materials and parts supplied have been distressingly irregular because of varying rates of reconversion and need for filling empty pipelines. If a single part for a machine is missing, you have no machine.

Producers of some other goods are having trouble, notably those in the lumber and textile industries. These industries paid generally low wages before the war. They have been reluctant to raise them, even though their profits were more than adequate to permit increases. As a result they lost workers steadily to war plants and shipyards during the war.

Let us examine the lumber situation as an example. In an endeavor to increase lumber production, OPA, on the recommendation of WPB and later CPA, increased lumber prices 66%. This was the greatest price increase given on any basic commodity. Unfortunately, however, it did not increase lumber production which actually fell 9½% below the 1939 level. Why? Because workers employed in lumber production declined 22%.

Question may be raised if price increases granted were sufficient to permit the lumber industry to pay wages high enough not only to retain its workers but to increase them. The answer is that profits on gross lumber sales rose from 3% in 1936-39 to over 12% in 1944, the last year for which we have adequate profit figures. Clearly OPA price increases were used by the companies to add to their profits; not to raise wages to attract more workers and solve the production problem. I may say that the profits of textile mills also rose far above prewar levels; yet they kept on losing workers because of relatively low wage scales.

Workers are now drifting back into these industries but it will take some time to lift their output to the levels required to balance demand under the public's greatly enlarged buying power.

Buying Power Above Prewar Basis

It is now becoming increasingly clear that public buying power will not return to the prewar basis. The government is supporting at high levels the incomes of farmers, which rose more than 170% during the war. Labor's wartime gain of 75.5% in take-home pay fell when overtime was for the most part eliminated and downgrading set in. Now the loss is being partially restored by wage adjustments.

Total business profits for 1946 will probably fall below wartime peaks reached in 1944 and 1945; but with excess profits taxes eliminated, profits *after* taxes will remain at a very high level; may top all previous records.

Our task obviously is not to produce goods enough to balance 1939 demand. We must instead enlarge our output to meet a new high level of buying power. This obviously will take time. Obviously, also, enemies of price control will charge in the meantime that production failure due to price control is responsible for shortages.

I would not be realistic if I did not admit that for limited periods in restricted areas price regulations have hampered production by certain companies producing certain kinds of goods. Drawing the fine line between price increases that are needlessly inflationary and those needed to maintain production is not always an easy task. Since V-J Day, however, OPA has amended procedures in 12 basic ways; most of the changes being designed to aid production. A total of 459 industry-wide price increases, and of 4,957 individual firm price increases have been garanted. Incidentally, a total of 192,673 rent increases were granted *on landlord petitions in 1945. These hardly reflect the inflexibility of policy which some persons attribute to OPA.*

Not Interfering With Production

Most of the charges that OPA is intefering with production are based upon misinformation. For example, the Bridgeport Chamber of Commerce hired a firm of industrial engineers to study the effect of price control upon Bridgeport industries. Mr. Robert Wason, president of NAM, advertised the results. The first finding, reported last November, was that if price controls were not abandoned or radically altered by Feb. 15 (that was a week ago last Friday), 8,700 persons would be thrown out of work in Bridgeport. We do not yet have figures for Feb. 15, but by Jan. 15 the United States Labor Department reports 4,800 workers had been *added* by Bridgeport industries!

In spite, however, of the fact that hampering of production by price regulations affects only a few companies and products for brief periods and is negligible in the whole production picture, and in spite of the fact that the rate of reconversion is extraordinary and the level of production before the flurry of labor disputes struck was phenomenal, it will take some time before production of all goods can balance the new high level of demand and we can get rid of controls without inflation.

Three Stages Ahead

We in OPA see three stages ahead which I shall take time to describe briefly.

Stage 1 is the period of labor, material and parts shortages through which we now are passing—the most critical six months in price control history. Due to labor disputes and the above shortages, our very conspicuous reconversion industries have a hard time getting under way. They experience high "bulge"

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Removal of Price Control

(Continued from page 1121)

costs before workers settle efficiently into their new jobs; before production lines get to flowing without interruptions and while overhead is piled onto low output. Inevitably these are blamed upon OPA, and these temporary high costs are cited as evidence that ceiling prices must be raised.

During this stage, OPA is being called upon for many price adjustments due to rising labor and materials costs. When conditions warrant, these are being made; but on a basis which business might consider tight, i.e., no adjustments are made so long as industries are earning their prewar dollar profits. We regret that at this stage more liberal adjustments cannot be made; but if the nation is to avoid an inflationary spiral that will wreck our economy and menace our free institutions, business must go along with us during this period of peak inflationary pressures.

Fortunately profits in most industries and trades are far above prewar levels and will remain so.

Already goods with annual sales of $5.5 billions have been decontrolled but through Stage I decontrol will proceed at a very slow pace.

Stage II will come upon us rather suddenly. Wage readjustments will come to an end and costs will become stabilized: workers will increase in efficiency, production lines will flow without interruption; volume will increase, cutting unit overhead costs. Appeals for price adjustments will dwindle. Toward the end of the period, price competition will begin to reappear.

OPA operations during this period will undergo two changes:

1. Pricing policies wlil gradually be adjusted to ease transition to a new economic era, by assuring earnings appropriate to a sustained high volume of production.

2. Decontrol will proceed at a steadily accelerating rate.

Stage III will be a period of capacity production, full employment and stable costs. Public buying power will be at a very high level but the gigantic production of which our new economy is capable will wipe out one shortage after another. Pressures will disappear first on materials and parts, then on consumer goods.

During Stage III, production will have taken advantage of the materials, design and technological advances made during the war. Costs will go down as output and the serviceability of goods goes up.

With continuation of price adjustments to assure earnings appropriate to a sustained high level of production and with rapid acceleration of decontrol, OPA may attain with business generally the popularity it now enjoys with the people, which on all polls vote 80 to 90% for continuation of price controls.

Pressures on rents and on building materials will be most persistent. Those on rents will continue long after June, 1947, for the housing shortage we face is not due to war curtailed construction only. Its cause goes back through the 1930's, when for 10 years our population increased much faster than our housing.

This look into the future is based upon the assumption that Congress will extend effective legislation and that no other influences will prevent price control from being successful. We are not good enough prophets to forecast the direction of these stages or the date when, if the OPA Act is extended, we can decontrol ourselves out of existence. We anticipate, however, that all controls but rents can be eliminated in 1947. Rent control can then appropriately be transferred to other agencies or to the states.

Whatever path we follow, the nation clearly is in for an era of great prosperity. With vastly enlarged buying power, with war accumulated shortages and with a productive capacity vastly expanded, nothing can prevent our entering upon such a period.

Will There Be a Depression?

Only one question remains to be decided: whether the era will be a stable and long-lasting period of full employment and production, or whether we shall, as we did after World War I, go through the usual post-war period of inflation, collapse and depression.

Because I like our system of free enterprise and want to see it preserved in a world where we are its last bulwark, I very much hope we will not now, in the name of free enterprise, decide for a postwar inflation and collapse that more than anything else will put our free institutions in jeopardy.

The question is, will we prove to be a juvenile nation, moved by whims and passing prejudices of the moment, and led by visionless groups with selfish interests to serve; or will we prove to be a grown-up nation, capable of learning from history and fixing policies in the interest of the whole nation.

With such issues in the balance, it is to me a matter of great regret that the United States Chamber of Commerce sits on the fence and does not throw its influence on the side of the happiness and enduring prosperity of our nation and its people. To sit on the fence when so grave an issue confronts the nation is almost as bad as betting on the wrong horse.

E. N. Allen Replies to Potter on Price Control

Following the above address by Mr. Potter of the OPA, Edward N. Allen, President of Sage-Allen & Co., Hartford, Conn., made the following remarks in refutation:

Let me make this very clear: I am not speaking in this discussion for the United States Chamber of Commerce; for retailers;

Edward N. Allen

nor for any segment of industry. I am speaking as an *American*, a citizen of this country, one who believes in it and in its future, if it is given a chance. One who is not so reactionary that he believes everything is perfect by a long shot, but who honestly does believe that our system of profit has, in the years past, brought more of the good things of life to more people than has ever been dreamed of under any other system.

Of course government has had a prominent part in that picture. So has industry, and so has labor. And of course government has had to step in with a helping hand when the going has been too rough. It will get rough again too. Make no mistake about that. Because wars, great wars like the one we've just been through, are an expensive luxury. One more of them would just about finish us. If our economic planners think we can just forget it, just wipe it off the books, they have got another guess coming. They, and we, are only kidding ourselves.

Cushion the shock? Yes, by all means, as much as possible, but to say we're not going to have inflation in doing so, is to know nothing about the facts of life. Let the OPA go into any of our retail stores. Let them compare the merchandise, the prices, the quality. Let them find out for themselves what things that are most wanted can not be purchased at any price. Then let them say that inflation is not here.

Attacking Symptoms

No, ladies and gentlement, the so-called holding of the line is an attempt to correct a symptom only, not the disease itself.

It has been well said that we have nothing to fear but fear—*could that be our plight now?* Does the *fear* of what would happen if all controls were withdrawn at once arise from *evidence*—or from the fear of mere uncertainty? It could be that the economic patient would suffer seriously if we suddenly took his medicine away. Or, on the other hand, it could be that his medicine was the wrong kind and that he would get well *quicker* if we took it away.

Professor F. A. Harper of Cornell University, one of the country's leading economists, has this to say about it: "Neither the laws of nature nor the laws of economics can be determined by public opinion polls, useful as they are for other purposes, such as testing what people believe.

"If public opinion had been polled as to whether the earth was round or flat the earth might never have become round.

"The executing of controls by arbitrary edict in times of peace results in the elimination of individual freedom and free enterprise, the life blood of a free society. There is but one way to attain the maximum production of things we want. That is by free prices in a free society with free enterprise. Prices at other points yield either unemployment and less total physical production, or its equivalent from make-work devices."

Now on this question of profits. Supposing Henry Ford did ask for a 55% increase in the price of his finished product—what of it? Who's better qualified to know, and what is there to be ashamed of in that? Is that not in line with our profit system? And incidentally who is hurt by it anyhow? If it had been 100%, what of it? We don't have to buy, do we? Or is the OPA going to tell us some day that we've even got to do that?

No, ladies and gentlemen, the day is coming soon when we've got to make up our minds as to what kind of a country and government we want. One that is free, (and I don't mean with permission to do anything we want to do either, but one with proper regulations and rules of the game, fair to all), or a country run by economic planners entirely. We're getting pretty close to the second type, make no mistake about it. The retailer of this country does not want high prices. He wants goods to sell at fair prices, and of good quality. He is not getting them now as you all very well know. He believes in high wages and the freedom of labor to bargain collectively with employers to constantly increase wages and living standards without government interference. But I cannot believe that intelligent labor leaders believe that constant increasing of wages is not tied hand in hand with some increases in prices, at least temporarily until competition, through increased production, takes hold to bring them down. Has this not been the history of our economic life for the past couple hundred years? Would any one dare to say that prices are not higher in the last ten years than they were a hundred years ago? And so are wages. And so is our whole standard of living.

Industry Not a Vested Interest

Please, Mr. Potter don't continue to brand industry as merely selfish and a vested interest, if some of them have the courage to disagree with you. They believe just as honestly that your theorizing is wrong, as you sincerely believe that it's right. Of course they want profits, and they *should.* They wouldn't be successful if they didn't. So let's get that bugaboo out of our thinking. Maybe some of them want bigger profits than you think they are entitled to. Has that become a crime in free America? Labor asked for 30%. Surely that was no crime. As a matter of cold fact, Mr. Potter if you will analyze corporation profits for the last fifteen years, I think you will do a little less talking about the enormous profits that have been made in industry. Yes, take the fifteen year average. Of course they were abnormally swollen during the war. They did pretty well as you say, even after about 70% was taken away from them in taxes. But what better incentive to production than the chance of substantial profits along with substantial and ever-increasing wages?

All of this sounds pretty simple, you say, but what about the day of reckoning, the day of deflation, the day of depression?

Yes, that day may come. We can't deny that. Wars create economic disturbances and upheavals. When that time does come then government clearly has a duty to ease the path and to prevent distress. Social security, full employment legislation and other means must be applied. That is government's duty to its citizens in times of stress. That is intelligent planning.

OPA Planning Not Intelligent

The type of planning being developed now is not intelligent. It is an attempt to take our people by the hand and lead them around as though they knew nothing. It is an attempt to say to our people—to our manufacturers—to our business men—yes, and to our labor unions: "You who have played such a large part in making it possible for countless numbers to ride in automobiles and live in homes that would be castles in other lands are utterly incapable of doing this job. You are through. You now need a nurse maid. We have got to take over."

Of course there is one additional fact that is not told us: If government should fail, the people will have to take over anyhow.

Now, ladies and gentlemen, I fully realize that the things I have said are not popular. I fully realize that I will be tagged with the so-called stigma of carrying on the line of thinking of some of our business organizations who have differed with OPA.

This is not a popular cause that I am endeavoring to preach. I am asking no one to accept my conclusions.

But I feel with all the sincerity that I possess that it is a righteous cause—one that, I believe, is in the interests of all of our people. I am willing to stand up and be counted on that side—the side of a free America.

Veazie With McRae

ROCKLAND, Me.—Edward R. Veazie has become associated with Lincoln E. McRae, 449 Main Street. He has been mayor of the City of Rockland since 1938.

Business Man's Bookshelf

Educational Motion Picture Field—Study—J. Walter Thompson Company, 420 Lexington Avenue, New York 17, N. Y.

Real Estate—Horace H. Hume—No. 64 of a series of Vocational and Professional Monographs—Bellman Publishing Company, Inc., 6 Park Street, Boston 8, Mass.—Paper—$1.00.

Public Finance and Full Employment—No. 3 in a series of postwar economic studies—Federal Reserve System, Washington, D. C.—paper—25c.

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., Dept. C-1, C-2, 841 West Washington Blvd., Chicago 7, Ill.—$3.00 with privilege of returning for refund within 15 days.

Steelmaking Capacity Declined During 1945

Steelmaking capacity in the United States as of Jan. 1, 1946, was rated at 91,890,560 tons of ingots and steel for castings per year, a decline from the wartime peak but by a large margin the highest capacity ever available in this country in a peacetime year, according to a report recently released by American Iron and Steel Institute, which further goes on to say:

In January 1945, capacity was rated at 95,505,280 tons per year. The decline since then reflects chiefly the abandonment of some of the older steelmaking facilities in the industry. During the war years, almost 14,000,000 tons of new capacity were installed to meet emergency demands. The existence of these new facilities has made it possible to retire some of the older facilities.

The current steel capacity is more than 20,000,000 tons, or nearly 30%, greater than the capacity available in 1929, and is 10,000,000 tons greater than was available at the outbreak of World War II.

At the present time, open hearth steelmaking capacity is rated at 81,236,250 tons per year, down about 2,900,000 tons from the rated capacity a year ago.

Electric furnace steel capacity is currently rated at 5,500,290 tons per year, up about 45,000 tons from a year ago.

Bessemer steelmaking capacity, once the greatest of all from the tonnage standpoint, now stands in third place. At the present time, Bessemer steel capacity is rated at 5,154,000 tons per year, against 5,874,000 tons per year on Jan. 1, 1945. The capacity for making steel by the crucible process is now rated at 20 tons per year, as against 3,800 tons a year ago.

Blast furnace capacity increased slightly during the year and is now rated at 67,340,590 tons of pig iron and ferroalloys per year. On Jan. 1, 1945, blast furnace capacity was rated at 67,1313,890 tons annually.

Form Kaufman & Johnson

Jay W. Kaufman and Dean Johnson, Jr., have formed Kaufman & Johnson, members of the New York Curb Exchange.

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The Market Outlook and Appropriate Investment Policy

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by conditions in the bond market. Long-term corporate bonds are being sold to yield less than 2½%. U. S. Treasury long 2½% bonds that were issued at par in December have already appreciated in an amount equal to two years' interest and yield at the market less than 2¼%. Medium to speculative bonds are now selling at the prices for high grades of only a short while back.

Practical investors should start out recognizing that neither they nor anyone else have all of the answers. At the same time, I believe that a careful, unemotional review of the dominating forces at work can bring one close enough to the answers to make possible an appropriate investment policy. That is the objective of this discussion.

Sustained Period of Big Business Ahead

Never before could we look ahead with more assurance to a sustained period of big business.

(1) Deferred Demand — The bursting pressure of deferred demand is obvious on every hand. Individuals, businesses, governments and foreign countries are all clamoring for the products of American industry. This deferred demand motivates the economy in a manner comparable to the booster on a freight train. It provides the extra power to start things moving, eliminates the possibility of getting stuck on dead center, notwithstanding business handicaps, and increases the pick-up to full speed once the brakes are released.

(2) Self-Generating Demand— We do not have ahead of us just a re-stocking boom. It is more fundamental and will be more enduring than that.

Once again, unlike the feeble 1930s, but more comparable to the vigorous 1920s, forces appear marshalled for a self-generating cycle of active business. It should not be assumed that business will turn down when production approaches current estimates of deferred demand. To the contrary, simultaneous with the production of these goods, there may be created an equally large additional demand.

(3) Expanded Markets — We probably do not yet appreciate the ultimate consuming capacity of the American market. Not long ago there was considerable discussion about possible markets in South America and Asia. In those countries it would be necessary to create a desire for the products, as well as the wherewithal to buy. We learned this when we invaded Africa. The natives were not interested in working just to earn additional money. It was necessary to bring them radios and other attractive products to create a desire to earn money in order to buy these goods.

Motion picture attending, automobile riding, newspaper and magazine reading, and radio listening Americans had a desire for more than they could afford. Now they have the money or the prospect of earning or borrowing the money to satisfy these desires at a new high level. We have seen many examples of how this works during the war. There have been rationing and general shortages of many items which were being sold to the public in much larger amounts than before the war. The reason is that the average American with larger income has materially increased his rate of consumption and would, no doubt, have increased it further had there been adequate supplies.

There will develop from time to time individual instances of over-production. This is true now of gasoline. It may be that some industries, such as the manufacturers of radios, may soon be producing at a rate in excess of what the public wants. But, in general, we are sure to have an extended period of high production. This will not come to an end by out-producing what is generally thought of as deferred demand, but will continue until there are created the maladjustments which themselves cause a downward cycle in business.

Powerful Monetary Forces Are Bullish

The preceding discussion leads into a consideration of the monetary forces which are exerting an influence upon the economy to a degree not generally recognized, especially by the Federal Government advisors and administrators.

We are now beginning to harvest a bumper crop of the bitter fruits of inflation grown out of a pseudo-economic policy followed by our Government for over a decade. The policy has been to increase purchasing power through deficit spending, relief payments, unemployment compensation, wage increases in excess of the increase in productivity, subsidy payments and by devious other means. This has all been done on the thesis that high and expanding purchasing power means prosperity. It has been assumed that production would take care of itself regardless of the handicaps imposed upon the producers. If there is money to spend in abundance, goods will be produced in abundance and our economy will prosper. Should the public have too much money, there is no danger because they will leave it idle. Therefore, according to our economic planners, we should have an abundance of money because it costs practically nothing to make. All we have to do is monetize some debt which is easier than extracting oxygen from the air.

This policy was destined to produce serious trouble and the situation today is chaotic. There are dollars everywhere, purchasing power in super-duper abundance, but not the goods to be purchased. The situation is accentuated temporarily by strikes, but it is wrong to take for granted that once the strikes are settled, almost regardless of the terms, industry will soon be producing all the goods that we and the world desire and have the money or credit to buy.

President Truman re-expressed this commonly accepted fallacy when he stated in his recent report on the state of the Union that: "No backlog of demand can exist very long in the face of our tremendous productive capacity. We must expect again to face the problem of shrinking demand and consequent slacking of sales, production and employment. This possibility of a deflationary spiral in the future will exist unless we now plan to adopt an effective full employment program." And then, in the midst of the shortage of goods and excessive cash-supported demand, the President issued another plea for a rise in wages to increase consumer purchasing power.

Fallacy of Out-Producing Inflation

The truth of the matter is this. We all know what stupendous sums of money are available for spending or investment. The figures are widely publicized. Our hope for avoiding more serious inflation, according to this popular concept, is to produce goods so that these funds can be spent. Now, assume that all strikes are settled, favorable operating conditions are created and industry turns loose producing goods and services at rates far in excess of any previous peacetime period. One year goes by and what will we find? We will find that in the process of producing these goods and services there was created enough new dollars to buy all of them. Rather than less money around, the stupendous amounts of money will become more stupendous. The relationship of money versus goods and available investments will become worse.

We cannot out-produce these war-created dollars, against the current monetary background, any more than we can outrun our shadow. Actually we sit on a fiscal volcano with two alternatives for an indefinite period ahead. The one alternative is for the public as a whole to understand that what we have done during the past few years is save bank credit, or Government debt; that these misnamed savings cannot be spent and that they must be held dormant. These savings in total have the real value of a mortgage on a burned-down house. They are not backed up by usable assets, but rather by the intangible goodwill of "Victory," or, if you will, sunken battleships, destroyed bombers, burst shells.

The other alternative is for these funds to be spent in competition with current income which alone is adequate to clear the markets. This would mean higher prices.

The probability of the first and desirable alternative working out is declining, due principally to the fiscal and economic policy of our Government. This policy is making the reconversion efforts appear like a football game with the Government being the cheer leader, the umpire and a participant As cheer leader, they shout, "We must continue to hold the line; here is a bulge, hold it; stop this break through; we're winning, we almost have a touchdown." But while doing this, as umpire they take the ball from the team of sound money and advance it about 35 yards in favor of the team of inflation. Now they jump in as a participant, sponsor a round of wage increases that may push the ball at least another 10 yards. All the time, as cheer leader, they keep chanting, "Hold that line." The trend of the game should be clear to every careful observer.

OPA Cannot Prevent Higher Prices

The OPA can hurt the earnings position of individual companies, it can cause a scarcity of goods and confusion, but not stop the immediate trend toward higher prices. This agency has no control over the dominating factors of demand, such as Government expenditures, credit expansion, employment, level of farm income, and the spending of savings. Also, this agency has only limited control over two of the most important cost factors, wage rates and farm prices. Thus, the OPA has very little control over the factors that determine prices. Of necessity, its avowed price control can be little other than volume stimulating or retarding profit control. It can only delay price adjustments to costs for industry generally.

I probably need to go no further into justifying my conclusion that the monetary forces work toward supporting a sustained period of active business, at high and generally rising prices for some time ahead. The inflation potential today is much more explosive than at the end of World War I, and the Government's policies are adding fuel to the fire. This discourages the holding of high grade bonds, preferred stocks and cash. On the other hand, it encourages the holding of common stocks, notwithstanding the big advance in prices that has taken place during the past four years.

Outlook for Profits Reasonably Good

In considering the outlook for profits, we again find it best to fall back upon an analysis of the fundamentals. In the heat of the wage-price struggle, the outlook can be confusing. However, there are certain forces that the Government and labor leaders must ultimately join industry in recognizing.

There is a growing demand for the output of industry operating at 100% of capacity. If prices in relationship to costs are arbitrarily set so that only, say, 80% of industry can make a profit or break even, production will be restricted. This means that more of the demand would remain unsatisfied and public discontent would grow into political pressure for a cure. This will be true as long as the public continues to be more concerned about getting goods than about the prices being charged. For this reason alone, the prospects are that prices will ultimately be adjusted in relationship to costs so that marginal producers necessary to meet the demand can break even. This is what generally happens as a result of competition. It means that a background will be created, if industry is to operate at full capacity, that permits the efficient producers to make good profits.

Another fundamental approach is to look at the need for employment. Unemployment now is much lower than had been estimated. It is not a serious problem, as evidenced by "Help Wanted" signs. By summer over 4,500,000 additional members of the armed forces will be released. This means that the problem of finding jobs is going to become of importance. A state of full employment requires full production and not just the operation of the more efficient units in the economy. In order to provide these jobs, in order to create an environment where there can be full employment, prices will have to adjust in relationship to costs so that the less efficient but necessary producers, the margin of producers, can operate.

Clouds Are Clearing

Fortunately, the clouds are clearing a little. The growing scarcity of goods and strikes, both partial expressions of the two forces just discussed, have already compelled one revision in the Government's wage-policy policy. The changes in policy were material and could go a long way toward working out the situation, if administered efficiently. However, if this new policy is not adequate, we can be pretty sure that before long the same forces will compel other revisions.

In this respect may I suggest that as investors we do not prejudice ourselves against the price-control policy to the point that we lose perspective; also, that we recognize a difference between the bark and the bite. For example, last week the OPA through one spokesman stated that price controls did not restrict production (the bark). On the same day it announced through another spokesman general price increases for the cotton textile industry, including an additional 5% incentive increase on certain items and predicted that this would increase production of most needed clothing by 50% (the bite?).

More Assurance of Reasonable Profits

Let us now turn to a number of specific observations that give assurance to the expectation of reasonably good profits for most companies once the immediate difficulties are overcome.

(a) The complete elimination of excess profits taxes is a material help to most companies. For many companies it is an advantage that more than offsets all of the operating difficulties being confronted.

(b) There are many industries that are not affected seriously by OPA controls and labor difficulties. Good examples are banks and merchandising companies.

(c) The large volume of business that many industries are and will experience will go a long way in overcoming the difficulties. A good example is the public utility industry. Because of the large increase in sales and the resultant reduction in unit costs, most of the well managed electric light companies are in position to reduce their rates and still show an adequate rate of return.

(d) There are many industries where labor costs are relatively small, both directly and indirectly through their raw materials, and a rise in these costs can be largely offset through increased efficiency. Most of the chemical companies are in this position, for example.

(e) We have seen during the war how price and cost difficulties can be moderated frequently by quality control. A New England railroad recently announced that the completion of its program of replacing steam with Diesel locomotives would reduce operating expenses in an amount equal to annual fixed charges. Some machine tool manufacturers have already completed new machines that will increase the speed of operation and reduce the costs to a point that renders economically obsolete the machines now in use. The adaptability of management is still the investors' principal protection, and in many industries there is much that they can be depended upon to do to the benefit of profits.

I believe we will find upon careful study that a substantial majority of the companies whose stocks are of a quality to be considered by the average investor, come within the above classifications and have the prospects of showing at least reasonably good earnings during the prospective period of active business.

Stocks Could Advance Considerably Further

There are few approaches toward the market that have as wide a degree of error as the one of attempting to estimate upside statistical possibilities in a dynamic, changing economy such as we now have. I would not spend much time working on such figures just now. It is remembered that the primary determinant of the level of the stock market is the investor's appraisal of current conditions and prospects. Current conditions are confusing, and on the surface uncertain, but along with it all there are many indications that encourage the investor to hold common stocks. The prospects favor the common stockholder. He can look forward to a sustained period of active business, good profits for most of the efficiently managed companies at least, increasing commodity prices and strong inflationary forces. This is a background that could ultimately carry stock prices to an extremely high level.

Stocks Relatively Attractive for Income

Income from investments is important to the majority of investors, and a comparison should be made of the relative position of bonds and common stocks. In order to be specific and most helpful in making this comparison, reference will be made to the Dow-Jones Industrial Average which over a period of years is quite representative.

(a) During the two decades from 1920-1939 inclusive, or approximately from the end of World War I to the beginning of World War II, dividends on the Dow-Jones Industrial Average

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averaged $5.10. If dividends for the period ahead were to average no better than this, stocks could remain at approximately current prices and afford an average yield equal to that of high grade long-term bonds.

(b) The period between the end of World War I and the beginning of World War II included two intervals of abnormally low dividends. During most of the 1920s industry was expanding rapidly and due to the need of increased capital, leading companies paid out in dividends considerably less than 50% of earnings. This compares with an average of near 65%-70% for a number of years preceding the outbreak of World War II. The second interval of abnormally low dividends was during the early part of the 1930s when we were in an intense depression. If we adjust for these two abnormal periods, we obtain an average dividend of about $6.50. It is probable that this adjusted average for the past period would hold for an indefinite future period. With dividends at this level, leading stocks as a group could advance in price an additional 25%-30% and still be yielding as much as high grade long-term corporate bonds, and more than long-term U. S. Treasuries.

(c) Actual dividend payments for these 30 stocks for 1945 averaged $6.70. Indications are that notwithstanding immediate difficulties the figure will be at least $7.00 for 1946. This means that at current prices selected common stocks afford almost a 40% better yield than high grade bonds. In addition, it appears reasonable to expect that before the period of active business comes to an end there will be an increase in the average dividend. In the meantime, should there be an interruption in the major uptrend of stock prices and stocks were to have an extended period of downward readjustment, good stocks held or bought at current levels would continue to be better long-term investments for income than high grade bonds.

A Constructive Lesson From the British Market

There is a feeling of some insecurity in holding stocks at these historically high levels when political uncertainties exist and so much allowance must be made for the monetary influences. Past experiences cannot be relied upon too much. Under the circumstances, a review of what has happende in London helps in weighing the market importance of conflicting forces and adds confidence to this appraisal of what is happening here.

The election of a majority Labor government in July, 1945, came as an unexpected shock to the London financial district. Against their announced program of nationalization and control, the New Deal appeared a very mild program of social change. Many individuals who only weeks earlier were regarded as radical, now appeared conservative. A socialistic government had come into power and Great Britain was to proceed down a new road of economic life.

The decline in the London market during the week following the Labor government landslide was probably the biggest ever recorded in so short a time. Within a few days, however, a sharp rise set in which eliminated almost one-half of the decline in three days. It was only a matter of weeks until the market as a whole had worked back to its highest level, with many new highs among stocks of companies not to be immediately affected by the program of nationalization. How could the market show such strength in the face of this political upheaval and general fears? These forces appeared to dominate and one quickly sees their counterpart in our market:

(1) The new government announced a policy of further lowering of interest rates. Easy money was to be made easier. This meant that there would continue to be an abundance of money seeking investment.

(2) The general public went on a buying spree as soon as the war ended, which was evidenced by large retail sales. After exercising retraint it seemed that people impatiently desired to spend their money and obtain the best of what there was available.

(3) There remained unshaken confidence that there lay ahead a sustained period of active business.

(4) The prospects were that taxes would be lowered, and excess profits taxes were soon reduced to 60% to begin Jan. 1, 1946.

(5) The amount of funds seeking investment was so large that investors became uneasy and quickly commenced to seek outlets for their funds. While they were cautious toward the equities in industries that were scheduled for early nationalization, they saw the readjustment as an opportunity to put their funds into equities of companies that should do relatively the best.

When we compare our situation with that affecting the British market, we find that the influences that dominated that market on the upside also prevail here, and in many respects to a greater degree. In addition, there are these fundamental differences. The political situation here is much more favorable to the investment of capital than it is in Great Britain. Our basic economic position is much more favorable. Also, our Government has adopted a more inflationary policy. If the economic and monetary influences could support the London market against the political developments, it is only reasonable to expect that they would dominate our market to a much greater degree.

What Are the Risks in Holding Common Stocks at These Prices?

Stocks have risen to prices where investors should not forget how frequently, "It's better not to know so much than to know so much that ain't so." Therefore, we should check our risk, and the first question to ask is: Could our judgment be wrong and could a deflationary spiral set in at this time? The probabilities are almost unanimously against its happening, in my judgment. There does not appear to exist the economic material out of which major declines are precipitated.

(1) **The Outlook for Commodity Prices**—A decline in commodity prices is not in prospect. The first important sign of weakness in the commodity picture should be in agricultural products. Here we find that any decline would be limited to moderate proportions for at least another three years through the Government's farm support policy. Other commodity prices in general are bound to increase. This appears an inevitable result of the supply and demand equation that exists and the Government's economic and fiscal policies.

(2) **Outlook for Wage Rates**—We are in the midst of a period of rising wages with no possibility of deflation in this section of our economy.

(3) **Inventories**—A characteristic of periods of deflation is the liquidation of inventories. However, we are on the threshold of a period of building up of inventories on the part of industry and consumers. There are shortages and not surpluses, with minor exceptions.

(4) **Credit**—Individuals have reduced their obligations to a probable minimum and rather than any possible further contraction, it is obvious that there will be a substantial expansion as soon as consumer durable goods are available. Business is in an extremely strong financial position, has no volume of loans to liquidate. When common stock prices can advance substantially concurrently with a ruling of the Federal Reserve Board eliminating all margin buying, it is obvious that there is no speculative credit to liquidate in the securities market.

(5) **Government Policy** — The Government is commiteed to a policy of maintained or increased prices, and of easy money. We have already seen how this policy works if an agricultural product declines in price. Recently the price of Burley tobacco declined after more than doubling from pre-war. Quickly a bill was rushed through the House and the Senate and signed last week by the President. This authorized reductions in marketing quotas and acreage allotments for this year's crop and increased the penalty on Burley tobacco marketed in excess of quotas. It was called a bill to stabilize the price of Burley tobacco. Regardless of the past advance, the price should not decline.

In keeping with this policy, the Government would almost certainly (most people would say have to) step in and support the Government bond market, should liquidation develop. This in turn would have a steadying influence upon the other markets.

(6) **Corporate Earnings**—Almost regardless of developments, earnings as represented by the 30 companies making up the Dow-Jones Industrial Average, should average during 1946 at least the level of 1945, and very likely higher. There are individual companies that are temporarily doing very poorly, such as steel companies, but this is so obviously due to artificial forces, that investors are unlikely to lose confidence in time bringing about an improvement in most situations. This observation shows how strong are the prospects for an increase in earnings. If we assume that the better situated companies, such as chemicals, foods and merchandising, were to continue to earn at the rate expected for 1946, allowing for no further improvement, and the companies whose earnings are being held back, like the steels and motors, were to recover to only a moderate rate against expected volume, average earnings for the 30 representative stocks in Dow-Jones Industrial Average would increase about 20%.

(7) **Dividends**—A careful review of a representative list of good common stocks suggests that few are faced with possible dividend cuts, and more will likely increase dividends during the year. Again, it is helpful to refer to the Dow-Jones Industrial Average. Of these 30 stocks, it appears that not over five may be faced with dividend cuts during the year, and up to ten or more could initiate increases. The fact that the managements of such companies as U. S. Steel, Bethlehem Steel, and Chrysler were willing to declare the regular dividends for the first quarter despite current bad earnings, gives a degree of security to the dividend outlook.

(8) **Public Psychology** — It is difficult to visualize a more than never-to-be-surprising intermediate reaction at a time when department stores are showing almost wild gains in sales, considering the selection and quality of merchandise, and people are forming long lines to buy nylon hose and other long-scarce items. This is occurring not at the end of a boom, but while consumers' inventories are low and money-backed needs are tremendous.

An examination of these usual causes or reflectors of deflation reveal no dangers. To the contrary, each points toward an outlook for the maintenance of current or higher common stock prices.

The Risk in Current Stock Prices Per Se

The prudent investor can't help but be concerned when he compares current prices with those in the past at important periods such as on the threshold of the 1937 decline. Actually, the fact that the stock market is moderately above the 1937 highs at this particular time may be a favorable indication. The 1937 high level was made as a final top to a long and substantial bull market. It came close to a cyclical top in business and on the threshold of a major period of liquidation in business, commodity prices, wages, inventories, credit, etc. New highs have been made during recent months against a background of uncertainty but on the threshold of a period of almost certain high business. For the market to have risen above the 1937 levels, when we are in the midst of poor earnings and difficulties and are yet only on the threshold of a period of active business, demonstrates the strong forces that are at work. This is in contrast to the tail-end evidences associated with the 1937 market highs.

Inflation Gambling Not Too Important

Secretary of the Treasury Vinson said a few days ago that, "We have won the inflation battle for nine rounds. It would be pathetic if we lost the tenth and last round." What has happened during these victorious nine rounds? Farm prices are up over 100%; wholesale commodity prices, 40%; and the cost of living is up over 30%. During this period we have built up a surplus of funds that can't be spent or invested except by forcing higher prices for both commodities and capital investments and that hovers over our economy like a fiscal atomic bomb. If this is the record of nine rounds of success in fighting inflation, one hates to think of what it would take to lose. How could there help but develop some concern with the constant talk from Washington of the growing dangers of inflation, and against the background of this score. They wave the red flag and then wonder why the "bulls" are activated.

Nevertheless, I doubt if the so-called inflationary buying that has taken place is as much a cause of rising prices as a result of rising prices. The concurrent strength in bonds, preferreds and common stocks indicates that the strongest force is the desire to put a growing part of the uninvested funds to work.

Intermediate Downside Risks

There is one remaining logical consideration before concluding this review. If we are now in the midst of an intermediate reaction, how far down might it carry the market? I shall outline one practical approach to the answer.

A 10% correction from the recent upside levels, or a decline eliminating approximately one-half of the last substantial upmove starting in August, would take the market down to the 180-185 range, in terms of the Dow-Jones Industrial Average. This would carry it back to the September-October level, and a lot has happened since then that justifies higher prices:

(1) Excess profits taxes have been eliminated.

(2) The easy money policy has been carried further with a decline in over-all yields.

(3) The public has gone on a buying spree, as evidenced by department store sales.

(4) The Administration has traveled an irreversible distance down the road of more inflation.

(5) Concerns over possible general deflation during the reconversion have been replaced by concerns over intense shortages. "Help Wanted" signs are seen almost everywhere at a time when it was predicted that unemployment would be a major problem.

(6) Rather than commodity price weaknesses such as some people feared, prices are firm with only a few exceptions. Wholesale prices could advance during the next few months as much as they have during the past few years.

So much has happened in favor of higher stock prices since the market was last at the 180-185 level, that it is unlikely that a period of intense concern could drive the market below that level. This suggests that the downside risk is limited to only a minor further decline.

Conclusion

One devoted to the preservation of capital, as well as the profitable use of capital, cannot resist the urge to be more careful after the big rise that has already taken place since 1942. It is emotionally disturbing to see recent activity at high prices after such an advance, and then to see the market reacting sharply. Many individual stocks must have reached dangerously high prices, and cautious selection is demanded as a matter of investment prudence.

Nevertheless, this appears to be a rational conclusion:

(1) There lies ahead a sustained period of big business that should produce at least reasonably good earnings.

(2) These earnings and resultant dividends will be capitalized against an inflationary, easy money background. The result could be substantially higher common stock prices.

(3) At the same time, there does not appear to exist the forces that could set off a major deflationary spiral in common stock prices. The intermediate term risk appears moderate.

(4) The monetary situation in general, the increasing supply of funds available for investment, particularly with institutions that must invest a large part of those funds in bonds, the prospect that the Government may not issue more long term bonds, during 1946, and the announced policy of the Treasury Department to pursue a policy of easy money, makes almost certain a background of continued low bond yields.

In case anyone interprets this analysis as pointing toward an investor's heaven with a good portfolio of selected common stocks, let me caution that the road we are following may be that of Satan.

UNO Trade Conference

The United Nations Economic and Social Council wound up its initial London meeting with plans for an international trade conference to be held before the end of 1946. Proposed originally by the United States, as the Associated Press pointed out in its London dispatch of Feb. 18, the trade conference is to discuss international plans for high employment, reduction of trade barriers and establishment of an international trade organization.

The Council is to meet again in New York May 25.

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Price Control and Reconversion

(Continued from first page)

come to grips at once with the problem of keeping inflation in bounds. It is not a threat that may materialize in the future. It is a very dangerous present condition.

There is every likelihood that keeping inflation in check is going to be the most crucial domestic question before us for many months to come. That is why I consider it so important to take steps now for continuing price stabilization measures for a full year beyond June 30, 1946. I am glad that your committee has offered me this opportunity to discuss the problem with you.

American business men and consumers rightly fear the effect of inflation upon our economy. And they should know now that their Government is prepared to safeguard their earnings and savings by stabilizing prices. And they should know now that the Government is prepared to remain on the price stabilization job until economic equilibrium is within reach.

Production Only Real Solution

As you know, I am on record as having said many times that I believe production in the last practical analysis, is the only real solution to the problem of inflation. I want to take this opportunity to reaffirm that statement. At the same time I want to say, with equal firmness, that I believe we cannot drop our defenses against inflation before production begins to supply demand.

Price stabilization is a measure we are using to safeguard our economy against the disaster of rising prices and costs.

We need that safeguard until production is sufficient and the volume steady enough to begin balancing with demand. Demands at present are very heavy. They have built up during the war, and there are new demands at present for many things.

It will take time to manufacture consumer durables, and materials needed by business and construction materials—and this alone is a big, time-consuming job which requires changing over and adjusting the Nation's complex business machinery from war to peace production. It will also take time to get these things to the market. The channels of distribution, wholesale and retail, for business and consumers have to be filled up again. Anywhere from a few weeks to many months are necessary for this. And that supply, once volume production has been reached, will have to be maintained for more weeks and months in order to approach demand.

Effect of Removal of Price Stabilization

We should ask ourselves what would happen to production prospects if price stabilization were to end before we had allowed enough time for the practical tasks of reconversion. Suppose we entered a period of spiraling prices and costs. It happened after the last war. If it happened again industry would certainly be obliged to stock up with materials for manufacture before prices went higher. It would be natural for consumers to rush to buy what they needed before the cost of living climbed further. It would be natural, too, for business to withhold finished goods from the market, because it would be facing a loss to sell when prices were sure to go higher. This situation would for a time inevitably increase, not lessen, the shortages of both producer and consumer goods.

A disordered price structure, with prices and costs bolting out of control, would give business in general a poor chance to expand its output of goods and services. Many of the industries producing to fill the most troublesome shortages would run into further difficulties.

Production Would Not Increase

It is not reasonable to expect that all production would increase if all price ceilings were removed. In specific cases, where lack of production is retarding reconversion, we can divert labor and materials from other uses, by granting measured price increases in order to step up output. This can be done effectively only under the stabilization framework. With all prices rising, that advantage would be lost.

At this stage in reconversion there are still a number of obstacles to be overcome before a larger volume of finished goods can flow to market. Shortages of labor, of components, and raw materials, still have to be met. Properly trained workers must be where they are needed and at the right times. Industrial plants and distributors have to reorganize for peace time trade. Technical changes are still being completed, and labor and management must settle down again into normal bargaining.

Production Is Increasing

These factors must be taken into account when we talk about achieving the kind of substantial production that will eventually smother inflation. But even so, even with practical problems still to be solved, our total civilian production is increasing. There has been noticeable progress in the production and shipment of finished consumer durable goods to market from the reconversion industries.

December shipments of vacuum cleaners, electric irons, refrigerators, electric ranges, washing machines, sewing machines and radios ran 10 to 30% above November shipments. And industry expects shipments of these and other consumer durables to reach at least pre-war rates of shipment by June of this year.

Goods from reconverting industries are coming to market in larger and larger quantities. This new production is coming in additional to overall production for civilian use that already stands at the highest level in our history.

During the war years' production for civilian use, in addition to our unsurpassed war manufacture, outreached any previous peacetime period. And on Dec. 31, production for civilian uses was higher than it had ever been before in peace time. During 1945, for example, food production in this country was 35% above the average for 1935-38—a peak up to then. An indication of today's volume of production is the amount of goods moving through department stores to consumers. It stands at an all time peak.

Sufficient production is an eventuality on which we can rely. But it has not yet materialized. It will require time. One reason that it will require time is that present demand for goods is so swollen that even better than ordinary production is not going to be enough to meet it immediately. This factor is one of the inflationary pressures that we have to watch.

Like many other inflationary pressures that have been developing since VJ-Day, heavy demand is not itself a bad thing. On the contrary, it provides a bridge which we can use to reach a period of good jobs, stable markets, and better times for all of us. We can reach this period if we take action now to prevent runaway inflation. But if heavy demand and great purchasing power are allowed to dissipate themselves in a boom that can end only in a depression, we will not be able to build a sound economy in the future.

There are other inflationary pressures that have been building up since last August. Prices continue to press hard against their ceilings. Wholesale prices have been inching higher and higher. Since last September, wholesale prices have risen faster than during any similar period since 1943.

Consumer spending continues to be heavy. Department store, chain store, and mail order sales were higher during the whole of 1945 and higher during the last month of the year than during comparable periods in 1944. Consumer buying in the last quarter of 1945 was at the highest rate in our history. Retail sales were at their all-time peak as the new year began.

Inflation Psychology

All these evidences of the trend toward inflation must be considered along with another one. And this is the psychology of inflation. That is becoming more and more apparent. Trade and business journals frankly cite the probability that prices will go up. We know that both public and private purchasing agents have frequently been unable to contract for future deliveries of goods except by agreeing to "escape clauses," providing for the possibility of a higher price. The assumption that prices are going up gives business an irresistible motive to withhold finished goods from market in expectation of higher prices and profits. We have not yet been able to judge how much this fact accounts for a number of shortages. But we must reckon with it. It is a practice that adds artificial scarcity to the very real shortage of goods that already exists.

This fear or anticipation that inflation is on the way—the assumption that prices are going up, —could very well be translated into disastrous action. And the action would be a rush to buy that would accentuate the already strong demand for goods and services. There is sufficient buying power available among both business and consumers to give considerable impetus to a buying rush.

It is obvious that we will continue to need safeguards against such growing inflationary tendencies. It would appear that, to safeguard consumers against increased living costs, it would be necessary to control only the prices of food, clothing, rents, and housing. This view has been advanced by those who sincerely want to avoid the development of serious inflation.

Prices of Durable Goods

I very much wish that this were all that was necessary. It would greatly simplify the task of the Congress and the Administration. Unfortunately, while inflationary pressures remain as great and as general as they are today, this proposal simply would not work.

It would not accomplish our objective of stabilizing the cost of living, because price increases are contagious. If prices in the uncontrolled sectors boomed—as under present conditions they certainly would—no price administrator could hold back prices in the controlled sector.

Just suppose, for instance, that the prices of all durables as autos, refrigerators, radios, furniture, farm machinery—and all services also, increased 25 to 50%. And this is not in the least unlikely if all price controls were removed.

Could anyone seriously suppose, to cite one example, that the prices of agricultural products could be held down while the price of durables the farmer has to buy soared?

Do Price Controls Decrease Production?

Another type of argument, also advanced by those who do not want to see a "runaway" inflation, is the contention that continued general price control is really restricting production, and thus contributing to inflation. One main reason for this contention, I think, is that each business man knows that if his own prices went up, without any change in other prices, he himself could produce more.

This is certainly true. If any single price were raised, while all other prices remained under ceilings, the producer in that line could raise both the wages he pays his workers and the price he offers for materials. He could then attract more labor, get more materials, and produce more. We have taken advantage of this under price control in increased output of materials and products which are bottlenecks in reconversion.

Control Removal Would Create Disordered Markets

But it does not follow that removal of all controls would have the same effect. Instead, it would destroy the advantage and create disordered markets. Today's high demands can be filled only by many months and, in some cases, years of sizable, steady production.

Certainly lifting price controls would not help us complete certain necessary reconversion tasks that industry still is working on. The same practical and technical operations would still have to be finished. It would still be necessary to allow time for distributors to reorganize their sales outlets. Workers would still be relocating themselves. Collective bargaining would still have to operate.

If continued price stabilization were actually restricting all production, we would have been undergoing a different sort of transition period since V-J Day instead of our present rapid progress. We would have had a limping reconversion. Unemployment would have increased much more sharply and quickly than it has.

No Rigid or Inflexible Control

However, relying on continued effective price stabilization to keep our economic house in order until production begins to approach balance with demand, does not mean that we are determined on rigid and inflexible control of prices.

Existing stabilization powers provide sufficient room for necessary flexibility in price control. The development of a revised wage-price policy by the Government during the last fortnight illustrates this point. Since V-J Day there has been a fairly narrow category of wage increases that could be used by industry as the basis of request for price relief. We have been depending mainly on free collective bargaining by industry and labor to settle the wage issues, without resulting price increases. Industry of course, could come in after six months and ask for price relief on the basis of wage increases that had been granted and that had increased production costs.

Now we have revised those ground rules. By dropping the six month rule, we have expanded considerably the category of wage increases that may be approved and used immediately as the basis for price relief for industry. Collective bargaining still remains the open avenue for wage settlement where no price increases are involved.

At the same time we have put a deterrent on excessive wage increases that would serve to promote a spiral of inflation.

Both the new wage policy and the new price policy put an even heavier requirement for speedy action on the Government. This will mean that the operating stabilization agencies—the Office of Price Administration and the Wage Stabilization Board—must accelerate their actions. And I know they are doing everything humanly possible to speed them up. They will need adequate personnel to assure prompt action.

Industry to Have Minimum Peacetime Earnings

The revised wage-price policy means that industry in general during the coming year will be assured of at least its minimum peacetime earnings. It means that labor in general will be able to soften the shock of reduced take-home pay that has followed the end of wartime pay rates. And it means that agriculture has a better income outlook for the very reason that labor is able to maintain wage levels and so continue to buy farm products.

This stabilization program can be adjusted to meet the changes of the transition period. It is not a formula for rigid control of the economy. We have already dropped the bulk of the wartime economic controls. The few still effective, in particular price control, must remain for a time. We will lift these few remaining controls just as soon as conditions permit. As I have said many times before, conditions will themselves determine the timing.

Gradual Elimination of Controls

The time will come when price controls over many more products can be dropped. They should be dropped on each product as soon as supply is in reasonable balance with demand. This may very well result in price control becoming highly selective before the need for it comes finally to an end. But in the meantime we must maintain the machinery for general price stabilization.

During this war we kept prices and the cost of living from getting out of hand. The real battle is at hand. The pressures toward inflation are heavier now, as they always are following war. And at present, when we are fighting heavier pressures, our weapons of defense are fewer. The main one aside from public opinion has now come to be price control.

Subsidies

Subsidies have also played an essential role in stabilizing the cost of living during the last three years. They provide certain producers with sufficient returns to enable them to produce adequately, without raising prices to the consumer. This was an important factor during the war in limiting demands for increased wages to meet increased living costs.

Farmers, along with consumers in general, have a stake in keeping the cost of living in line. Stabilization has kept the prices of things farmers had to buy from soaring at the same time that farm income has remained good. The drop expected during the last six months has failed to materialize. The December cash income of farmers was higher than the August level, with seasonable adjustments.

Nevertheless, even though the subsidy helps keep the cost of living in line, farmers do not like subsidies, and I sympathize with that view. Nobody likes subsidies. The Government recognizes that it is desirable to get rid of all subsidies as quickly as possible, and intends to do so.

The Stabilization Administration has announced that the remaining food subsidies will be terminated as soon as prices of the non-subsidized elements in cost of living decline enough so that it will be safe to allow the cost of the subsidized elements to go up. At the same time, farm incomes will be protected. Here again, as in price stabilization, it is a matter of keeping a balance. But because subsidies continue necessary for cost of living stabilization, it will be necessary to retain the authority to use subsidies, along with price control, during the 1947 fiscal year.

Important considerations of national welfare, as I have shown,

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make it imperative to extend the Emergency Price Control Act of 1942, as amended, and the Stabilization Act of 1942, as amended. I have discussed a number of these considerations in some detail because each of them is important. It is vital to prevent inflationary trends from developing into a real inflation that will hamper business in its effort to produce. It is vital to keep the cost of living in line so that labor need not press for higher wages. It is vital to keep the cost of major raw materials in line so that production can go forward.

I urge your committee to act promptly so that the two acts on which the stabilization program rests may be extended for 12 months beyond June 30.

Text of Mr. Snyder's Address at Detroit

Speaking before the Economic Club of Detroit on Feb. 18, Mr. Snyder, directing his remarks to the broad problems of industrial statesmanship and reconversion, called attention to the problem of retaining price controls and attaining full production. In view of the statements made by Mr. Snyder, in which he denied that price controls were seriously impeding production, we publish herewith the text of Mr. Snyder's Detroit address.

We stand today on the threshold of a period of the greatest civilian production in the history of the United States. We are fighting the "Battle for Peacetime Production," and we shall be engaged in that battle throughout 1946. This is a time when output is limited, not by consumer demand, but by the ability of business to produce. Our strategy in fighting the battle for production, and the industrial statesmanship displayed will determine the shape of our post-war economy. Our future prosperity will depend upon the outcome of the campaign.

We are completing the first phase of the reconversion period during which we reconverted our plants to peacetime production. In nine months the nation has swung the pendulum from all-out production for war, which we had achieved prior to the defeat of Germany, to the beginning of an all-out production for peace. The attainment of the goal of full peacetime production is beset with difficulties, but the stakes are as high as any we sought during the war itself. The responsibility for success in our new effort rests, as it did throughout the war, on government, on industry, and on labor.

But there is one great difference. That is the shift in the division of responsibility for production—from the government, to management and labor. During the war, production was financed by the government. Our entire war output was planned. The government built plants when there were shortages, it directed the distribution of men and materials to essential industries; it regulated civilian distribution through rationing. The government assumed a direct responsibility for production and government purchasing provided for half of all that was produced.

Government's Reconversion Responsibilities

Now, however, we face a far different picture.

The government still has many responsibilities, but it has returned to private initiative the direct responsibility for meeting the nation's demands for goods and services. The government no longer finances and directs our production except in a few instances. The government no longer is the most important customer of business. Industry now looks to the nation's 140,000,000 customers for its market.

The government's role in reconversion is to assist industry and labor in meeting the responsibilities which are now theirs. I should like to describe for you the steps which the government has taken, the policies it has adopted, and the course it may be expected to follow in assisting industry and labor to achieve their goals.

During the initial months of reconversion, the government has followed a planned program of decontrol to give business back its freedom of action and flexibility so that production for peacetime markets would get underway as rapidly as possible.

Our basic strategy of returning to a free competitive economy required that controls be removed unless they were absolutely essential to transition needs.

In judging the need for maintaining controls, we have been faced in some cases with this dilemma:

To keep too many controls too long would inevitably clog our business economy and delay production.

To lift controls too soon would cause disorderly conditions and seriously delay reconversion.

The government has consciously leaned to the side of prompt removal as the lesser of two evils. In fact, in a few instances we have found it necessary to restore some of the controls we have removed: for instance, controls over construction, and over wheat.

Lifting controls is not in itself the easy path to full production. It was recognized from the beginning that further action would be needed to locate and remove those obstacles on the road to reconversion that are slowing down or threatening to halt the industrial machine. The government is working constantly to break production bottlenecks of materials, equipment and manpower.

There is enough of most materials to meet the nation's immediate peacetime requirements but a few important materials are scarce enough to affect the speed of reconversion. The government is maintaining a continuous analysis of the demand and supply of basic materials. The government's policy with respect to scarce materials and facilities was restated and reaffirmed in an Executive Order of Feb. 14, 1946, which reads, in part: "It is the policy of the government, in order so far as possible to prevent price increases, that there be prompt and firm enforcement, during the present emergency, of government controls of scarce materials and facilities." Where direct action is necessary to prevent shortages which might delay reconversion, the government is using three major procedures:

One—It is taking direct action to expand the supply of critical items by such means as labor recruitments, priority assistance to manufacturers in the purchase of equipment or facilities needed to raise output, expediting the release of Army and Navy supplies, and price adjustments where necessity is demonstrated.

Two — The government exercises control over uses of critical materials. Certain materials, such as tin, natural rubber and burlap, are so scarce that their purchase must be regulated to insure that supply is available for the most essential uses. The channeling of scarce building materials to low and moderate cost housing is another example.

Three — The government is maintaining controls to prevent excessive inventory accumulation and hoarding as long as materials are in short supply and inflation threatens, in order to protect producers and distributors from artificial scarcities.

The Wage-Price Problem

A great deal of time and study has been devoted to the wage and price problem. The aim of the government's reconversion pricing program is to bring peacetime goods back on the market at non-inflated prices. The formulas for "reconversion pricing" were laid down immediately after VJ-Day. Since then there has been a continuous review of price ceilings on a number of reconversion products.

We have been engaged in setting a wage-price policy which will, as far as possible, and within certain limitations, maintain wage-earners' incomes without breaking the price line. A fair solution of the wage-price problem is essential to successful completion of reconversion. Without that we cannot get into full peacetime production and without full production we cannot win our fight against inflation. Management and labor must come to a fair agreement with each other on the wages to be paid but the government has an urgent responsibility on behalf of all the people to make sure that rising wages and rising costs do not result in run-away inflation, for everyone of us would suffer if that were permitted.

The Executive Order of Feb. 14, to which I have already referred, directs the Price Administrator to provide for an adjustment of price ceilings in any case in which he finds that an industry is in a position of hardship as a result of an increase in wages and salaries. The adjustment is to be sufficient to enable the industry to earn an average rate of profit equal to the rate earned during the peacetime base period applicable to that industry.

We have not reimposed full control over wages because in this period of readjustment all parties agree it is desirable to permit the fullest degree of collective bargaining within the framework of price control. We hope to prevent hardships resulting from drastic reductions in take-home pay but **we also hope to prevent inflationary effects on prices.** That would defeat the purpose of wage increases and would cause hardships to all persons receiving fixed incomes. And, above all else, our over-all objective is to lay the foundation for a return to the high-wage, low-price, mass-volume economy which has been the great achievement of the American system of free enterprise and the basis of the unprecedented material progress of our country in this past century.

Our policy to attain these objectives has been set down in the Executive Order of Feb. 14 (which I have mentioned). In it, the National Wage Stabilization Board was directed in that Order to approve wage and salary increases which are consistent with the general pattern of wage or salary adjustments already established in an industry. In case there is no such general pattern, the Board may approve increases to eliminate gross inequities between related industries or plants, to correct sub-standards of living, or to correct disparities between raises in wages or salary rates in the units concerned and increases in the cost of living between January, 1941, and September, 1945.

Prevent Unregulated Wage and Price Rises

One of the principal purposes of the Executive Order is to prevent the unstabilizing effect of unregulated wage and price rises. Hence the Stabilization Administrator has been given the authority to provide, by regulation, that wage or salary increases of a particular class shall be unlawful unless made with the **prior** approval of the National Wage Stabilization Board, if such an increase is judged to have an unstabilizing effect.

To assist in controlling the effect of wage increases or price rises, the Executive Order provides that wage increases granted by employers **without** the approval of the Wage Stabilization Board cannot be used by these employers as a basis for asking an increase in price or rent ceilings.

All arbitration awards and all recommendations made in the future by publicly appointed fact-finding panels, with respect to wage or salary issues, must conform to the standards of the new Executive Order. No wage or salary increases shall be put into effect in accordance with such awards and recommendations until they are approved by the appropriate stabilization agencies.

I am firmly of the opinion, and I am sure that you will agree with me, that the provisions of the Executive Order of Feb. 14 which I have briefly outlined to you will prove to be of assistance in maintaining a stabilized economy during the transition period until production can eliminate the threat of inflation.

On Threshold of Volume Production

Estimates of industry show that we are on the threshold of volume production in many reconverting industries. Physical reconversion of plants is almost 100% complete. I think you will agree with me that the Government's program of "getting itself out of business," and in decontrolling, has been a potent factor in accomplishing this so rapidly.

The Government plunged, immediately after VJ-Day, into the greatest liquidating operation in history—closing out the war. A sixty billion dollar munitions business is being largely wiped off the books. We are closing out and settling contracts, clearing out some plants, selling others and disposing of surpluses.

A year ago, we had a sixty billion dollar munitions program and procurement averaged about five billion dollars a month. After the defeat of Germany, we slashed production goals sharply downwards. After VJ-DAY a wave of contract cancellations cut munitions procurement to a half billion dollars a month. The few remaining munitions schedules are under constant review, and procurement rates will continue to drop. As an illustration, motor vehicles next June will be bought at the rate of only 3/10ths of 1% of last July's rate.

The change-over of plants from war to peace has been facilitated by the prompt removal of government-owned property from war plants. This has, in almost all cases, been done within 60 days after a request has been made.

Paralleling contract termination in importance and far outstripping it in magnitude is the task of disposing of the government's vast holdings of surplus war goods and property. Regulations for the disposal of surpluses have been completed and the problem now is primarily one of merchandising. About 43 billion dollars worth of goods and property will be declared surplus by the end of 1946 and another 7 billion dollars worth will be turned over to disposal agencies in 1947. Of course a great part of this vast store will be instruments of war such as ships, planes and munitions that will have no civilian use.

Selling this property calls for energetic use of practically all the commercial methods of nation-wide selling.

The Surplus Property Administration established basic policies and procedures for the handling of surpluses, and the War Assets Corporation has now taken over the disposal operation.

Disposal of the war-built plants and other facilities — some built with private funds, the majority owned by the government — are potentially a valuable national asset. Naturally, the construction during the war had special characteristics. Aluminum and magnesium production, for example, was increased, not only in response to a high level of industrial activity and to new uses for those metals in industry as a whole, but also to meet the purely military demand for planes and bombs. Thus a considerable amount of conversion and adaptation is needed to fit all these facilities into our peacetime industrial structure, but most of them can be used in one way or another, and their integration into our economy is an essential step in putting men to work and producing the goods we need for a higher standard of living.

Effect of Reconversion Measures

The effectiveness of the reconversion measures I have described can be measured in statistics of our national production.

At VJ-Day, goods and services were being produced in the United States at an annual rate of just over 200 billion dollars, nearly half of which was for war. The war share of output has fallen tremendously while the civilian production has risen very rapidly, with the result that total national production stands at about $180 billion. We are now producing for our civilian market at a rate of $20 billion more than we were five months ago.

But while we have more food for our tables, more gasoline for our automobiles, more of many kinds of consumer goods than we have ever had in our history, we severely lack other products that we need and want. Housing, for example, is our most serious shortage. It is so serious that only a bold, imaginative program such as the one prepared by Wilson Wyatt and announced by the President could hope to come anywhere near meeting the need.

Most consumer durable products — automobiles, refrigerators, washing machines—have thus far been produced in quantities adequate only for show-window display. The very real progress made in converting our industrial plant has not yet shown itself in output. I hope that the events of the past week will remove the barriers to full production and that we'll begin to get the full effects of the magnificent job that business has done in switching from war to peace.

The backlog of consumer needs and the tremendous pool of savings which has been stored up during the war is a new dynamic factor in the life of the American people. The level of national consumption right now is the highest it has ever been in any peacetime year and there is every indication that it will go higher.

We must realize, however, that this immediately favorable situation is in some part caused by deferred demand. It is not necessarily in itself a permanent part of our national life.

We are shaping our economic policies during the transition to take advantage of this situation. Although, for the moment, the pressure of demand is inflationary, we can turn it to our advantage by generally holding the price line and by encouraging the rapid increase of production to meet this ready market. We can use the pressure of this demand acting on our free business economy to expand our production to a level of full employment.

Deferred Demand Will Slacken

We do not know how long the deferred demand will maintain a level of full employment, but one thing we do know: The time will come when this deferred demand will slacken and we shall once again face the deflationary problems which beset this and other countries in the 1930's, and which were a root cause of the Nazi revolution in Germany. Sustained

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prosperity can be assured only by a high level of demand supported by high current income and not by deferred needs which are supported by accumulated savings.

We must make sure that our policies in the crucial war-to-peace change-over will not only assist us to achieve full production and full employment during the immediate postwar period but also that they will assist us to maintain production and employment in the future on a steadily rising level without the extreme fluctuations of the past.

In the long run, the development and maintenance of a market for our production must be the yardstick we apply to all policies during the transition. What we do in the next year or two will, in a large measure, determine whether or not we can avoid another 1929 collapse.

Four Point Program

You men, as leaders of this great industrial community, are vitally interested in the plans and policies which the Administration proposes to put into effect to accomplish the goal of successful reconversion.

I believe that you can expect that the Administration will proceed along the following course:

The Government will hold the line on prices, because runaway inflation would be disastrous to worker, farmer, businessman and consumer alike.

The Government will maintain direct controls as long as they are necessary to break production bottlenecks and to assure adequate supplies for essential reconversion purposes.

The Government will continue to play its present role in the readjustment process by assisting business and labor to break bottlenecks and, above all, by stabilizing the general level of cost and prices as long as there is threat of inflation.

And finally, the Government will take such measures as are necessary to deal with urgent special problems which threaten the smooth course of reconversion, or constitute a danger to the health and welfare of the people—such as labor-management relations and the housing shortage.

These will be the steps of the Administration, but the full responsibility for production must be assumed by American industry and labor.

These two, working together with the cooperation of the Government, will be an irresistible force in overcoming the problems of the months that lie ahead. It is unthinkable that, after joining together to prevent destruction of our form of free government by an enemy outside our country, industry and labor would fail now in meeting the challenge of these times. I know that management and labor are both anxious to be at work—for ahead of us lies the greatest era of plenty this or any other nation has ever known. In closing, my message to you in Detroit is "Let us go back to work. Let us do the job together!"

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alone foreign, needs are and will continue for an indefinite time to be far short of demands.

Accordingly, there can be no doubt that the Emergency Price Control Act of 1942 should be extended for a sufficiently long period to enable production to become reasonably correlated with demand.

Price Control Last Bulwark

Price controls, however irksome and difficult to adjust, are virtually our last bulwark against increasing costs of living. This is so because of the extent to which we have removed, reduced or avoided other wartime control mechanisms. We did away with WPB and its allocations of scarce materials and its construction permits. We discarded the War Labor Board and its wage controls. Rationing has been largely abandoned. The excess profits tax has been eliminated altogether and individual income taxes have been reduced. The work week has been sharply cut down. We have avoided adequate measures to curb speculation in capital assets, particularly in the real estate field.

Because we have discarded, diminished or avoided other controls, while incomes have remained very high, it is all the more urgent to retain the Price Control Act until this country's immense capacity to produce, so amazingly demonstrated during the war, brings about an equilibrium between the income and savings which people have to spend and the availability of the goods and services they wish to buy.

Wants No Addition to the Money Supply

What is the money supply today? Measured by demand deposits—that is, checking accounts—and currency, the general public (excluding banks, insurance companies, etc., but including Treasury deposits) has available in demand deposits and currency over 125 billion dollars, or more than three times as much as in June of 1940. In addition, the public holds another 100 billions of Government securities—or eight times as much as in June of 1940—and nearly 50 billions of time deposits, or nearly twice as much as in June, 1940. To the extent that dollars borrowed by our people, or foreign owned or borrowed dollars, are added to these resources, the inflation potential will become all the greater. Even allowing for a larger postwar national income, there can be no doubt that on the money supply side of the equation the total today is nearly five times the amount prior to the war and is, at present, vastly in excess of available goods and services.

It is important to understand how such a tremendous increase in the money supply came about because the process should be stopped and, if possible, reversed, now that the war is over. Necessary as it is to retain price and other essential controls for a while and to clear away obstacles, particularly wage and price disputes, that prevent or reduce vitally needed production, these objectives need to be accompanied by an equally strong determination that the Government shall not add further to the money supply.

There is not a sufficiently widespread realization of the fact that our money supply expands through borrowing, whether by private interests or by Government, from the commercial banking system, and that, conversely, the money supply contracts when bank loans are paid off or their Government bond holdings are reduced. To the extent that we failed to cover the costs of the war by taxation or by borrowing from the general public, we relied on the banking system to furnish the money. Thus, between June 30, 1940, on the eve of our defense program, and the end of 1945, the Government raised over 380 billion dollars. Of this, 153 billions came from taxes, or only 40%; 228 billions, or 60%, came from borrowing, and of this, 133 billions, or about 60%, came from selling Government securities to others than commercial banks and Federal Reserve Banks, while 95 billions, or 40%, was raised by selling Government securities to the commercial banking system, a process which created an equivalent amount of new money.

This tremendous expansion of bank credit, which has so greatly swollen our money supply, is a primary source of inflationary pressures at this time and will continue to be until goods and services are available in sufficient quantity to balance more evenly the factors of supply and demand.

Calls for Balanced Budget

It is evident, therefore, that on the money side of the inflation problem, the Government should stop and, if possible, reverse the process whereby it creates bank credit. It can stop further creation of bank credit by bringing about a balanced budget. It could reduce the existing money supply in two ways. One would be by paying down the public debt. The other would be by having the commercial banks sell some of their Government securities to nonbank investors. Since this should be accomplished without any increase in interest rates which would, in turn, increase the costs of carrying the Federal debt, it would be desirable to have the commercial banks sell some of their longer term holdings to nonbank investors and to have commercial bank holdings more concentrated in shorter term securities bearing a lower rate of interest.

Stopping further monetization of the public debt in the banking system will tend also to stabilize interest rates so that they will reflect the volume of savings and investment funds in relation to demand instead of reflecting an increasing volume of bank credit. This, in turn, will help to reduce the inflationary effect that a combination of increasing bank credit and decreasing interest rates has on all capital assets.

Wage and Price Policies

Policies dealing with the money side of the inflation equation need to be accompanied by wage and price policies on the other side of the equation that will make for rapid achievement of a high level of production on a permanently sustainable basis. Wage increases can only be justified when they can be met out of increased productivity and profits without increasing prices. Clearly, wage increases that result in price increases to the consumer are inflationary.

It has been contended that all price controls should be removed now in order to insure full production. Where price ceilings do not in fact afford a sufficient margin of profit to call forth production, they can and doubtless will be adjusted, but these instances are not general. To argue against all price controls is like arguing against vaccination on the ground that it is better to contract smallpox in the hope that you may recover from the disease than it is to take necessary precautions against contracting it while efforts are being made to eradicate the sources of the infection.

To the extent that we can deal effectively with the money supply and production factors, we will be getting at the root causes of the inflationary problems confronting the country today. Price controls, rationing, curbs on consumer credit or on stock market credit, and similar devices admittedly deal only with effects, not with basic causes of inflationary pressures.

In brief, prudent policy at this time calls for measures to get at the fundamental inflationary causes by curbing or reducing the money supply on the one hand, and by increasing available goods and services on the other hand, and meanwhile retaining price controls, reinforced where necessary by other restraints, until the factors of demand and supply can be brought into a better balanced relationship.

Unless we pursue such a policy, we run immeasurable risks in view of the inflation potential today. If we were to permit a sharp rise in prices to occur, the holders of liquid assets might lose faith in the purchasing power of their holdings. The consequences could be disastrous.

Proposes Tax on Speculation

In the course of his testimony following the above statement before the House Banking and Currency Committee, Mr. Eccles was asked by Representative Wright Patman (D. Texas) regarding his previous proposal to levy a heavy tax on speculation in securities and other capital assets and to extend the present holding period beyond the present six-month period. To this Mr. Eccles replied as follows:

Mr. Eccles: Before the Senate Banking and Currency Committee, when this question came up, and I have made the same recommendation upon several occasions in connection with the work of the Stabilization Committee, the Economic Stabilization Board, of which I am a member, an advisor. And in this statement that was released to the press—I happened to bring a copy of it along, thinking this question might come up—this is what was said:

"The most effective way that I know of to curb speculation in capital assets would be to increase substantially the rate of the capital gains tax, or the holding period, or a combination of both. For a long time I have advocated enactment of legislation to this end as a temporary protective measure applicable to all future purchases. This would not deter the selling of assets held at the time that the measure was introduced in Congress, but it would greatly deter buying for the speculative rise after that date. It would not affect the purchase of capital assets of any kind which have been or are being bought for personal use or a long term investment, rather than for the speculative rise."

Mr. Patman: I recall that testimony, and I think you are right about it. I think one of the greatest mistakes we have made was reducing taxes so soon and so much, and I think we should have gotten more as we went along, and I think we should have increased the capital gains tax for the reasons which you have suggested there. It would have been helpful.

Flight of the Dollar

Now, one other thing and then I will be through, Mr. Eccles. You mentioned that if we did not curb inflation, that there would be a flight of the dollar. That people would use their liquid assets to buy things. What do you suggest they would buy? Stocks, real estate, and things like that? Things that might increase in value along with the decrease in value of the dollar?

Mr. Eccles: That is right. That money, or debt forms, such as mortgages, bonds, Government and otherwise, are, of course like money, and their value diminishes with the decline in the purchasing power of money. I do not mean their price declines, but I mean the dollars they are payable in decline. So that people are always looking for a hedge against inflation, and the stocks—preferred and common—real estate—all kinds, farms, homes, business properties—and commodities, of course, are a way to hedge against inflation, and the records in Europe, where there has been an excess supply of money and scarcity of goods available, such as is the condition today in most of the European countries, show that there is a great pressure for prices to go up, and I think that our stock market, our real estate, homes, farms, and even commodities that can be bought, could skyrocket if this price control act were not extended, and vigorously enforced, and unless we maintain taxes and balance the budget and maybe pay off some of the debt and unless we stop the banks from creating additional money.

Those are, I think, the things we must do to stop this potential from being effective in its inflationary effect, and to cause the public to maintain the confidence that they have today, and justifiably so, in our money. And to the public, money is savings accounts, Government bonds, insurance policies, retirement funds, and so forth. And it seems to me that we have a terrific responsibility—this Government has—to see to it that those funds, those investments in insurance, and in savings, and in Government bonds, are protected and that their purchasing power is protected.

Extent of Inflation

Mr. Patman: What do you consider the value of the dollar to be today compared with the period immediately preceding our entrance into the war?

Mr. Eccles: Well, of course, there is a good deal of argument as to what our inflation has been. Measured by the increase in the cost of living, I think the Office of Price Administration figures that it is about 30% inflated. Which is as good a job as any country has done. I think maybe Canada has done, if anything, a little better job than we have. But with other countries, there has been a greater inflation than that. I would expect that with increased wages and prices on your new wage-price policy, that we will get some further increase. It is estimated that there is a possibility of it reaching as high as a maximum of 40%. I would think, if the cost of living can be held to 40% above the prewar level, that we will have done a fairly good job considering the size of this public financing that has been undertaken.

The Housing Bill

Mr. Patman: You were not here when we were considering the Housing Bill, which is considered an *anti-inflationary bill*. Have you given consideration to the fixing of prices on existing homes?

Mr. Eccles: Yes. I have been in a discussion or two where that matter has developed. The difficulty with that particular field is that it is a job of enforcement. Theoretically, I think it is fine, if it could be made to work. But the job of enforcement is going to be a particularly difficult one. Of course, as I understand the proposal, it is to freeze the price of a home after its second sale.

Of course, that would keep the home from being sold a second and a third and a fourth time for speculative profit, but, of course, it would not keep it from selling at an inflated price the first time.

Mr. Brown: Now, I do not know a home anywhere that you could get as much for as it would cost you to buy the lot, to buy all the materials, and pay the high cost to carpenters, that you could not rebuild the same house for what you can get for it today. I do not know of any anywhere in my section of the country that would bring as much as it would cost to construct the same house. Therefore, building materials and the construction of new houses will absolutely control the sale price of old houses.

Mr. Patman: You mentioned these sales. Was not the second, third, and fourth sale the principal cause of inflation during the last war, Mr. Eccles? That a real estate dealer would sell the home to the family, and the family would hardly get located until the dealer would go back to him and say, "Now, get your thousand dollars profit on this," and they would keep on pyramiding them that way. Was that not one of the main reasons and one of the principal causes for inflation in housing after the last war?

Mr. Eccles: I think it is a factor,

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and I think it is a factor now, and will continue to be a factor, and, therefore, the proposal, to the extent that it does stop the multiple sale of the same house, is of some value and effect.

Capital Gains Tax and Speculation

Mr. Patman: You do not know of any better plan, do you, Mr. Eccles?

Mr. Eccles: Well, I think that capital gains tax might be a good plan. In other words, I do not see any reason why we should discriminate against the homes in favor of stocks and business properties and farms. They are all capital assets. And to the extent that you shut the door in one field, you may tend to stimulate it in another, and it would seem to me that the most practical way to get at the inflation of homes, as well as farms and business properties, and stocks, is to take out this speculative profit for the rise, that people who are in the high income brackets are buying for the rise, because, after holding for six months, they can then sell and pay only a 25% tax.

We have left the door wide open in that field, and there have been simply millions and millions of dollars made by speculators. We are doing everything we can to encourage speculation in capital assets, and we have done absolute nothing to stop the speculation.

Mr. Patman: Well, I do not agree with you. We are not doing everything we can. We are not doing anything to encourage it. We are just failing to act to stop it.

Mr. Eccles: Well, that is possibly a better way to put it. In other words, we have done nothing to stop inflation in capital assets.

Mr. Brown: Then, you say that if they put a ceiling on existing homes, they ought to put it on stocks, farms, bonds, and have everything treated alike?

Mr. Eccles: Well, as a practical matter, you cannot get at it by putting a ceiling, it seems to me, on stocks or bonds, or farms. It would be even more difficult than it would be with homes. What I am saying is that they are all capital assets, and we should stop speculation by extending the holding period, and putting a special tax on.

Investment and Money Market Outlook

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interest rates and inflationary or deflationary tendencies. The Treasury cannot find buyers for goods in this country but it can create a buying sentiment. It cannot find buyers abroad but it can take a stand that may provide the means of making foreign nationals potential buyers. You, your firms and every other person and firm, businessmen, investors or unskilled working people, are subject more than ever before to the acts of the financial and economic departments of the United States Government because they set our fiscal policy.

After World War I, we had a debt of 25 billion dollars with the average cost of money to the government of 4.18%. The Liberty Loans were successful largely because people borrowed money to buy "governments." With the inflation, caused by World War I and with the general scarcity of manufactured goods and some raw materials following the armistice, business, banks and individuals borrowed again up to the limit to buy and later to speculate.

Today World War II has ended with a United States debt of nearly 300 billion instead of 25 billion, a sum raised through investing income or selling to buy but not through borrowing. The cost to the government of the money raised is 1.95% instead of 4.18%. Banks are borrowing practically nothing as against heavy borrowing after World War I. Corporations are borrowing relatively little and while signs of speculation are evident by individuals it is and has been largely on a cash basis.

The chemical industry has become a veritable fairy story to the general public. What it cannot do today it will do tomorrow. The old products of the chemical industry are scarce and the new products are awaited with bated breath. The public is interested in chemistry; they want to have a hand in the development. They do this by investing in it.

How, then, will you obtain money for improvements, expansion and inventory if you have not already obtained it through earnings and what will it cost you? Should you step in now to borrow or wait? If you have money to invest should you invest now and in what? Should you undertake equity or bond financing?

In twenty minutes' alloted time I am not going to tell you every answer. I will hit what may seem to be only fundamentals.

Low Interest Rates to Remain

For nearly fifteen years I have preached that money rates are going to remain easy. I would not mention this now if I had not been right. That is retrospection. In the future I believe rates are going to remain easy and I am not saying how long the future is but it will be long enough to produce a trend. This statement is made because if the government wants to keep its expenditures down, as it does, with respect to the cost of its debt service it cannot let interest rates rise materially. This service costs about 6 billion a year now. If we retire the debt to the limit presently believed practical so that we will have none in 100 years from now that will cost an average of 3 billion more, or 9 billion total debt service annually. Debt retirement from income means, generally speaking, a growing scarcity of investment medium which means, generally speaking, rising prices or lower interest rates. We financed World War II at 2½% for the longest maturities. Since the war we can sell long bonds at lower yields than that.

Debt reduction is deflationary, generally speaking. On the other hand greater ownership of the debt by commercial banks is inflationary and that is a continuing phenomenon. Deflationary tendencies eventually produce less industrial activity. I am not considering deflationary tendencies to that extent by what I have said but if the level of business did recede and employment did fall off for any reason, from the standpoint purely of the banking system some part, perhaps a large part, of 28 billion of currency would return to the banks. This has the same effect as though gold was shipped in from abroad. It increases the excess reserves and increases the potential investment capacity of banks. It is hard to find a reason for believing money rates will change upward in the immediate or near future to any appreciable extent. Personally, I believe interest rates should not be lowered, a tendency prevalent today. Without some manufactured brakes this tendency will continue for some months unless I miss my guess. I like to add that hedging phrase even if I have been right for fifteen years. Some minor brakes may be applied, and I hope they will be.

Equity Capital Available

I personally dislike a stock market rise that becomes spectacular enough to bring in the bellboys and the chambermaids as speculators. We are in some danger of this happening today. I consider the recent rise, however, has been justified by legitimate demand based upon reasonable expectations. A temporary slump would not today be exaggerated by margin calls from banks because the market already is largely on a cash basis. We have not felt the earning power of industry from peace-time domestic and foreign consumption. It is not too easy to judge the effect today even if strikes and reconversion problems were eliminated. I hope the stock market waits for facts from now on. I doubt if the speculative interest is great enough today to carry it on blindly. However, if a sound industry needs equity capital, it is my belief it can expect to obtain it at satisfactory cost for some time to come because the investment funds are plentiful and will undoubtedly remain so for a considerable time, if not longer. This means equity financing, if sound, can be accomplished at reasonable cost.

I have been talking about something I know a little about. I have stuck my neck out pretty far but I am willing to leave it there. I have not given you a scientific dissertation by reciting detailed facts and enumerating all possible angles of the problem. It has been my experience that very few listen to such details after dinner.

Now I am going to talk about allied subjects which I do not know much about and you do not either. Nobody does.

Foreign Investing

We must give more thought to the foreign peace-time situation than most of us do. Nearly every businessman has an inherent dislike of loaning a sum of money directly or through an international bank with not too good a chance of getting it back.

It is my belief that the only way that Americans can realize what we must loan or even give away is not only through pricking their humanitarian consciences but more generally by explaining their own interlocked interest in loans or grants.

One European ambassador from a rather unique country has told me that they do not want money or loans, they want American industry to start branches in their own country. Let us consider this.

I do not believe in a loan which directly or indirectly will be used for the purpose of rebuilding or building an industry in a foreign country unless the industry is to be efficient. I, however, believe in the necessity of starting some industries producing and I believe in the necessity for monetary stabilization loans. I personally believe in American industry helping in rebuilding foreign industry. That sounds both good and fantastic. Which is it?

I am self-centered enough to believe that in production involving small profits with large distribution and involving chemical and mechanical technique of the highest order, that Americans are very generally supreme. I believe they are supreme in devising means of cutting costs to make otherwise unprofitable ventures profitable. If that is so, then I see disadvantages in pouring money into foreign industrial enterprises that cannot survive except through lower standards of living or higher tariff barriers or import restrictions.

I see many present disadvantages in corporate dollars investing in foreign subsidiaries, but they are not insurmountable.

Take any average necessary chemical industry, for example. They are naturally now more concerned with the domestic demand of today than of the foreign demand of the future. They may set aside certain small percentages of their production for foreign consumption to supply necessities abroad. There will come a time when greater attention will be given to foreign markets. On what will the capture of these markets then depend? It will be dependent upon the prosperity of that country, its ability to create foreign exchange through exports (not all to America), its ability to obtain credit, its ability to create internal buying power through an increased standard of living. There are, of course, other conditions to be concerned with. It will be dependent upon what I am told Disraeli said to Queen Victoria when in substance he declared that if England was to be prosperous the rest of the world must be made prosperous.

Foreign Subsidiaries

I am now saying to you that a subsidiary of the X Chemical Company commanding a high credit rating can be built in a naturally suitable area abroad, with readily obtained American dollars. It can obtain some local equity funds now and should provide that these present payments are merely partial payments on a still greater local investment up to a substantial percentage of the total investment, retiring the American dollar investment proportionately when, as and if the dollars are found, either after stabilization loans have made exchange possible but preferably through foreign exchange created by the enterprise itself.

Now I realize that you can perhaps tell me that this is a layman's view of the chemical or any industry and therefore bound to be wrong. I merely summarize my remarks in reply to that by saying: If a well-organized, American-staffed in the higher brackets limited company is organized in a proper area abroad with American dollars to build or buy it, controlled at present by a parent company in America but substantially owned by local interests purchased with local currency in full or in part, you can eventually have a well-run company employing local labor. You should under such a set-up get fair tax treatment locally and avoid confiscation.

If this company is therefore efficient, it may start well but with a part of its equity capital paid in local currency and possibly not immediately exchangeable. Therefore if the standard of living is still low and the currency is stabilized at a rather low rate it certainly should beat local competition and compete very favorably in foreign competition. It should have some advantage in obtaining raw materials in world markets over purely local business. I say that if local markets are reasonably good they presumably will be while scarcities exist at least it can make money in terms of local currency. If costs of operation rise because of payroll increases, the standard of living is going up. The country is then getting prosperous and local buying increases through the increase of natural, not artificial, causes as it well may begin. If equity purchased by local people in local currency and earnings in local currency pile up, a well-run company can obtain foreign currency by competing in world markets and help bail itself out. If it cannot then UNO funds, international banks and other stabilizing media have failed. It will not fail if efficiently-run industries are located in what are today financially paralyzed countries. Funds supplied for stabilizing currencies will fail in time if inefficient old-world business operations too scantily financed are set in operation, for such cannot compete in the world with modern machinery, American technology and U. S. dollars.

Without some fairly general movement such as this, I believe not only will we be advancing money through the UNO with only a slight hopse of return but we will be building up a resistance to imports into this country and a resistance to imports into foreign countries. We will continue on an artificial exchange basis in most countries and we will see a hopeless struggle for existence in many countries abroad that augurs ill for world prosperity.

American Business in World Wide Production

I believe that world prosperity can come with American business having a direct finger in the production pie all over the world. I believe this is the way to share in world prosperity and not count on sharing in it solely through increasing our sales abroad. This proposal can of itself develop the increase in our sales abroad, and our buying abroad, the latter without pain. Labor will continue to gain as labor always gains the more nearly the world prospers. It is a fallacy to say that American labor should work wherever American dollars go.

I have always felt that it was good business to risk capital even in a new enterprise if the management was sound and experienced and the enterprise soundly capitalized but I have always felt it was poor business to loan money when I knew in the beginning that the borrower did not have enough capital even with my loan or did not have top-flight, experienced management. Our government is going to provide, or help provide the means, in a major way, of putting second-rate management into probably inadequately financed business abroad. I agree they cannot in many instances do less unless enterprising American industry steps in and puts foreign production on a sounder basis. American business, generally speaking, can get American dollars for enterprises conducted abroad which it controls. Foreigners cannot do the same for their own industries, generally speaking, and often do not deserve to. This may seem like pure American boasting. I admit this but I do not call it boasting.

Lending to Nations Unable to Repay

I am for helping countries that need help to make them prosperous. I have heard of a bankrupt company borrowing itself into prosperity but I never put my own money into one. I dislike the idea of putting a foreign country and foreign nationals in the position of borrowing from us beyond their means to repay. We are not popular now abroad in many places. We will be less popular if we lend less than is wanted or needed. We will be still less popular if we require a payment of principal when it is not convenient to do so and it almost never is. I do not like to see America more unpopular and I see no necessity for being as unpopular as we are. I have never seen the government at home do as good a job of building business as private industry can do and I now apply that rule abroad as well. This is a business problem we are facing.

If business could be efficiently handled over most of the world, most of the world would eventually be reasonably prosperous, barring wars. Then America too would be more prosperous. That is not a Utopian dream; I think it should be a hard-headed businessman's goal.

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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, MARCH 2

JAEGER MACHINE CO. on Feb. 11 filed a registration statement for 33,153 shares of common stock, without par value.

Details—See issue of Feb. 14.

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.

Underwriters—The underwriting group is headed by McDonald & Co., and the Ohio Company.

GRAYSON-ROBINSON STORES, INC. (formerly Grayson Shops Inc. of Cal.) on Feb. 11 filed a registration statement for 50,000 shares of cumulative convertible preferred stock, without par value, and 50,000 shares of common, $1 par.

Details—See issue of Feb. 14.

Offering—The price to the public will be filed by amendment.

Underwriters—Emanuel & Co. is named underwriter.

MONDAY, MARCH 4

BENDIX HELICOPTER, INC., on Feb. 13 filed a registration statement for 507,400 shares of common stock, par 50 cents. The shares are being sold for the account of the estate of Vincent Bendix, deceased.

Details—See issue of Feb. 20.

Offering—The shares will be sold in the over-the-counter market.

Underwriters—Kobbe, Gearhart & Co., Inc. is named principal underwriter.

HUDSON PULP & PAPER CORP. on Feb. 13 filed a registration statement for 100,000 shares of 5% cumulative preferred stock, series A, $25 par.

Details—See issue of Feb. 20.

Offering—The price to the public will be filed by amendment.

Underwriters—Lee Higginson Corp. is named principal underwriter.

YANK YELLOWKNIFE GOLD MINES, LTD. on Feb. 13 filed a registration statement for 1,000,000 shares of common stock, par $1.

Details—See issue of Feb. 20.

Offering—The offering price to the public is 30 cents per share, United States funds.

Underwriters—J. J. Carrick, Ltd., Toronto, Canada, is named principal underwriter.

TUESDAY, MARCH 5

CLAROSTAT MFG. CO., INC., on Feb. 14 filed a registration statement for 240,000 shares of common stock, par $1. Of the total 90,000 shares are being sold by stockholders.

Details—See issue of Feb. 20.

Offering—The offering price to the public is $4.25 per share.

Underwriters—B. G. Cantor & Co., New York, is named principal underwriter.

WEDNESDAY, MARCH 6

MAXSON FOOD SYSTEMS, INC., on Feb. 15 filed a registration statement for 475,000 shares of 50-cent convertible preferred stock, without par value.

Details—See issue of Feb. 20.

Offering—The price to the public will be filed by amendment. The underwriter agrees, for a period of five days, to accept orders from stockholders of W. L. Maxson Corp. to purchase, at the public offering price, shares of preferred at the rate of two shares of preferred for each share of capital stock of Maxson held by such stockholders.

Underwriters—F. Eberstadt & Co., Inc., is named principal underwriter.

SATURDAY, MARCH 9

PIPER AIRCRAFT CORP. on Feb. 18 filed a registration statement for 150,000 shares of common stock, par $1 per share.

Details—See issue of Feb. 20.

Offering—The price to the public will be filed by amendment.

Underwriters — Hayden, Stone & Co. heads the underwriting group.

CENTRAL NEW YORK POWER CORP. on Feb. 18 filed a registration statement for 200,000 shares of cumulative preferred stock, par $100. The dividend rate will be furnished after the shares have been offered for sale at competitive bidding.

Details—See issue of Feb. 20.

Offering—The price to the public will be filed by amendment.

Underwriters—The names of the underwriters will be filed by amendment.

STATE BOND AND MORTGAGE CO. on Feb. 18 filed a registration statement for accumulative savings certificates series 1217-A, $2,000,000 and investment certificates series 1305, $1,000,000.

Details—See issue of Feb. 20.

Offering—Approximate date of proposed offering March 15, 1946.

SUNDAY, MARCH 10

DUMONT ELECTRIC CORP. on Feb. 19 filed a registration statement for 51,000 shares of common stock, par value 10 cents. The shares are issued and outstanding and are being sold by Dumont Electric Co., a limited partnership.

Details—See issue of Feb. 20.

Offering—The initial offering price to the public is $4.75 per share.

Underwriters—First Colony Corp., N. Y. is named principal underwriter.

MONDAY, MARCH 11

COLONIAL MILLS, INC., has filed a registration statement for 125,000 shares of capital stock, par $7.50 per share. Of the total 50,000 shares are being sold to the underwriters by the company. The remaining 75,000 shares are being sold to the underwriters by certain stockholders.

Address—498 Seventh Avenue, New York, N. Y.

Business—Wide variety of fabrics from synthetic filament yarns.

Offering—The price to the public will be filed by amendment.

Proceeds—The net proceeds to be received by the company from the sale of the 50,000 shares, together with the net proceeds from the sale of $2,000,000 15-year 3% sinking fund note, will be applied in part to the prepayment of the company's 1¼% 90-day promissory notes in the amount of $2,750,000. The remainder of the net proceeds is to be added to the company's general corporate funds and may be applied to capital expenditures on company's property estimated to cost $2,400,000. The proceeds from the remaining shares will go to the selling stockholders.

Underwriters—Dillon, Read & Co., Inc., heads the underwriting group.

Registration Statement No. 2-6163. Form S-1. (2-20-46).

TUESDAY, MARCH 12

GRAHAM-PAIGE MOTORS CORP. has filed a registration statement for $12,000,000 4% secured convertible debentures due March 1, 1956. The statement also covered an indeterminate number of common shares to be reserved for issuance upon the conversion of the debentures, and 25,000 shares of common, which shares may be issued to Allen & Co., New York, pursuant to a proposed standby agreement.

Address—Willow Run, Mich.

Business—Manufacture of automobiles to be known as the Frazer and of certain mechanized farm equipment.

Offering—The price to the public will be filed by amendment.

Proceeds—Of the proceeds, $2,500,000 will be used to pay in full the note of the corporation in such amount to Bank of America National Trust & Savings Association. After payment of this note, the corporation presently estimates that approximately $8,000,000 of the net proceeds will be expended in connection with the production of the Frazer automobile at Willow Run as follows: $3,500,000 for special tools, dies, jigs and fixtures; $2,500,000 for machinery and equipment, and $2,000,000 for expenses and charges prior to production. The remainder of the proceeds, together with the present working capital of the corporation, will be available for working capital, and for general corporate purposes, which may include any one or more of the following: the installation of additional automobile assembly lines in the Willow Run plant; the development and assembly of additional body styles for the Frazer automobile; the manufacture of certain component parts of the Frazer automobile now being purchased from unaffiliated suppliers; the development and production of additional farm implements; and the redemption of outstanding shares of the corporation's 5% cumulative preferred stock A. Subject to the authorization by stockholders of any necessary additional shares of common stock and to the negotiation of a satisfactory standby agreement with Allen & Co., underwriter of the debentures, the company intends to call for redemption and retire in the near future the outstanding shares of its 5% convertible preferred stock. Such standby agreement would provide generally for the sale to Allen & Co. at $9.16⅔ per share of three shares of its common stock for each share of 5% convertible preferred stock redeemed by the corporation. Such transaction would take place simultaneously with the redemption of the 5% convertible preferred stock, and the proceeds therefrom would be used to pay in full the obligations of the corporation to holders of its 5% convertible preferred stock upon such redemption. The statement said the corporation hopes to effect the retirement of the outstanding shares of its 5% cumulative preferred stock A, whether by exchange for shares of common or by redemption.

Underwriters—Allen & Co., New York, heads the underwriting group.

Registration Statement No. 2-6164. Form S-1. (2-21-46).

L. E. CARPENTER & CO. has filed a registration statement for 129,242 shares of common stock, par $1 per share. Of the total, 50,000 shares are being sold by the company, and the remaining 79,242 shares are being sold by certain stockholders.

Address—Wharton, N. J.

Business—Coated fabrics.

Offering—The price to the public will be filed by amendment.

Proceeds—Of the proceeds to be received by the company from the sale of 50,000 shares a portion will be used for an addition to the Wharton dye house and the installation of additional facilities, and the purchase and installation of a new solvent recovery process for the Wharton plant and the moving of the present solvent facilities at the Newark plant to Wharton. Any balance will be added to the company's general funds.

Underwriters—Burr & Co., Inc., New York, is named principal underwriter.

Registration Statement No. 2-6165. Form S-2. (2-21-46).

TRI-CONTINENTAL CORP. has filed a registration statement for $7,360,000 2⅞% debentures, due March 1, 1961.

Address—65 Broadway, New York, N. Y.

Business—Investment company.

Offering—Price to public will be filed by amendment.

Proceeds—The net proceeds will be used, together with other funds of the corporation, to redeem the corporation's outstanding 3½% debentures in like amount, at 104 plus accrued interest.

Underwriters—Union Securities Corp. is named principal underwriter.

Registration Statement No. 2-6166. Form S-4. (2-21-46).

HACKENSACK WATER CO. has filed a registration statement for $15,000,000 first mortgage bonds due March 1, 1976. The interest rate will be filed by amendment.

Address—4100 Park Avenue, Weehawken, N. J.

Business—Collection and distribution of water for domestic, industrial and fire-protection purposes.

Offering—As soon as practicable after the registration statement shall have become effective, the company proposes to invite sealed bids for the purchase of the bonds.

Proceeds—The net proceeds are to be applied toward the payment of the principal, premium and interest due on redemption of $14,350,000, first mortgage bonds, series A 3½%.

Underwriters—The names of the underwriters will be filed by amendment.

Registration Statement No. 2-6167. Form S-1. (2-21-46).

DALLAS TITLE & GUARANTY CO. has filed a registration statement for 25,000 shares of capital stock, par $10 per share.

Address—1301 Main Street, Dallas, Texas.

Business—Insuring titles to real estate, etc.

Offering—The price to the public is $20 per share.

Offering—The company has granted holders of its capital stock rights to subscribe at $20 per share to the new stock at the rate of one share of new for each share held. The company reserves the right to sell any unsubscribed stock at public or private sale at $20 per share.

Proceeds—Of the consideration to be received by the company, $10 a share will be credited to capital account and $10 a share will be credited to paid-in surplus account. The expected increase in capital will permit the company to write policies of title insurance larger in amount as to any particular policy from the maximum amount now permitted.

Underwriters.—None named.

Registration Statement No. 2-6168. Form S-1. (2-21-46).

GIANT YELLOWKNIFE GOLD MINES, LTD., has filed a registration statement for 81,249 common shares, $1 par, Canadian. The shares are being offered to residents of the United States and Canada by Toronto Mines Finance Ltd. These

(Continued on page 1130)

FINANCIAL NOTICE

MIDLAND VALLEY RAILROAD COMPANY

Interest Payable April 1, 1946 and Oct. 1, 1946 on ADJUSTMENT MORTGAGE SERIES "A" AND "B" BONDS

Philadelphia, Pa. February 21, 1946

The Board of Directors have ascertained, determined and declared from the earnings of the year ended December 31, 1945, 4% interest on the Adjustment Mortgage Series "A" Bonds and ½ of 1% interest on the Adjustment Mortgage Series "B" Bonds, 2% payable April 1, 1946 and 2% payable October 1, 1946 on the Adjustment Mortgage Series "A" Bonds, and ½ of 1% payable April 1, 1946 on the Adjustment Mortgage Series "B" Bonds, as provided in Section 4 of the Supplemental Indenture dated April 1, 1943.

On and after the interest payment dates given, the Fidelity-Philadelphia Trust Company, Philadelphia, Pa., will pay the following amounts for coupons surrendered:

Series "A" Bonds—Coupon No. 5—April 1, 1946—$20. on $1,000. and $10. on $500. Bonds; Coupon No. 6—October 1, 1946—$20. on $1,000. and $10. on $500. Bonds.

Series "B" Bonds—Coupon No. 5—April 1, 1946—$5. on $1,000. and $2.50 on $500. Bonds.

C. JARED INGERSOLL, CHAIRMAN OF THE BOARD.

DIVIDEND NOTICES

Allied Chemical & Dye Corporation

61 Broadway, New York

February 26, 1946

Allied Chemical & Dye Corporation has declared quarterly dividend No. 100 of One Dollar and Fifty Cents ($1.50) per share on the Common Stock of the Company, payable March 20, 1946, to common stockholders of record at the close of business March 8, 1946.

W. C. KING, *Secretary*

American Power & Light Company

Two Rector Street, New York, N. Y.

PREFERRED STOCK DIVIDENDS

A dividend of $1.50 per share on the Preferred Stock ($6) and a dividend of $1.25 per share on the $5 Preferred Stock of American Power & Light Company were declared on February 27, 1946 for payment April 1, 1946, to stockholders of record at the close of business March 11, 1946.

D. W. JACK, Secretary and Treasurer.

CALUMET AND HECLA CONSOLIDATED COPPER COMPANY

DIVIDEND NO. 55

A dividend of five cents ($0.05) per share will be paid on March 16, 1946, to holders of the outstanding Capital Stock of the Calumet and Hecla Consolidated Copper Company of record at the close of business March 1, 1946. Checks will be mailed from the Old Colony Trust Company, Boston, Mass.

J. H. ELLIOTT, Assistant Secretary.

Boston, February 21, 1946.

C.I.T. FINANCIAL CORPORATION

formerly

Commercial Investment Trust Corporation

Common Stock Dividend

A quarterly dividend of 50 cents per share in cash has been declared on the Common Stock of C. I. T. FINANCIAL CORPORATION, payable April 1, 1946, to stockholders of record at the close of business March 9, 1946. The transfer books will not close. Checks will be mailed.

JOHN I. SNYDER, *Treasurer.*

February 27, 1946.

DUPONT E. I. DU PONT DE NEMOURS & COMPANY

WILMINGTON, DELAWARE: *February 18, 1946*

The Board of Directors has declared this day a dividend of $1.12½ a share on the outstanding Preferred Stock, payable April 25, 1946, to stockholders of record at the close of business on April 10, 1946; also $1.25 a share, as the first "interim" dividend for 1946, on the outstanding Common Stock, payable March 14, 1946, to stockholders of record at the close of business on February 25, 1946.

W. F. RASKOB, *Secretary*

DIVIDEND NOTICES

ELECTRIC BOAT COMPANY

33 PINE STREET, NEW YORK, N.Y.

The Board of Directors has this day declared a dividend of twenty-five cents per share on the Capital Stock of the Company, payable March 11, 1946, to stockholders of record at the close of business February 28, 1946.

Checks will be mailed by Bankers Trust Co., 16 Wall St., New York 15, N. Y., Transfer Agent.

H. C. SMITH, Treasurer.

February 21, 1946.

Electric Power & Light Corporation

Dividends on $6 Preferred Stock & $7 Preferred Stock

At a meeting of the Board of Directors of Electric Power & Light Corporation held on February 27, 1946, a dividend of $1.50 per share was declared on the $6 Preferred Stock and $1.75 per share on the $7 Preferred Stock of the Corporation for payment April 1, 1946, to stockholders of record at the close of business March 15, 1946.

H. F. SANDERS, *Treasurer.*

INTERNATIONAL HARVESTER COMPANY

The Directors of International Harvester Company declared a quarterly dividend of sixty-five cents (65c) per share on the common stock payable April 15, 1946, to all holders of record at the close of business on March 16, 1946.

SANFORD B. WHITE Secretary

INTERNATIONAL SALT COMPANY

475 Fifth Avenue, New York 17, N. Y.

A dividend of FIFTY CENTS a share has been declared on the capital stock of this Company, payable April 1, 1946, to stockholders of record at the close of business on March 15, 1946. The stock transfer books of the Company will not be closed.

HERVEY J. OSBORN, *Secretary.*

JOHNS-MANVILLE PRODUCTS JM **Johns-Manville Corporation**

DIVIDEND

The Board of Directors declared a dividend of 75¢ per share on the Common Stock payable March 11, 1946, to holders of record March 2, 1946.

ROGER HACKNEY, *Treasurer*

OFFICE OF NORTHERN STATES POWER COMPANY (WISCONSIN)

The board of directors of Northern States Power Company (Wisconsin), at a meeting held on February 19, 1946, declared a dividend of one and one-quarter per cent (1¼%) on the Preferred Stock of the Company, payable by check March 1, 1946, to stockholders of record as of the close of business February 20, 1946, for the quarter ending February 28, 1946.

N. H. BUCKSTAFF, Treasurer.

The Board of Directors of

PITTSBURGH CONSOLIDATION COAL COMPANY

(Incorporated in Pennsylvania)

at a meeting held today, declared a quarterly dividend of 35 cents per share on the Common Stock of the Company, payable on March 12, 1946, to shareholders of record at the close of business on February 28, 1946. Checks will be mailed.

CHARLES E. BEACHLEY, *Secretary-Treasurer*

February 25, 1946

DIVIDEND NOTICES

SOUTHERN UNION GAS COMPANY

Dividends on Preferred and Common Stocks

The Board of Directors of Southern Union Gas Company has declared the initial quarterly dividend of $1.06¼ per share on the 4¼% Cumulative Preferred Stock of the Company, payable March 15, 1946 to stockholders of record March 1, 1946. Checks will be mailed.

The Board of Directors of Southern Union Gas Company has declared a dividend of 12½c per share on the Common Stock of the Company, payable March 15, 1946 to stockholders of record at the close of business March 1, 1946. Checks will be mailed.

H. V. McCONKEY

Secretary and Treasurer

February 22, 1946

SOUTHERN PACIFIC COMPANY

DIVIDEND NO. 113

A QUARTERLY DIVIDEND of One Dollar ($1.00) per share on the Common Stock of this Company has been declared payable at the Treasurer's Office, No. 165 Broadway, New York 6, N. Y., on Monday, March 25, 1946, to stockholders of record at three o'clock P. M., on Monday, March 4, 1946. The stock transfer books will not be closed for the payment of this dividend.

J. A. SIMPSON, Treasurer.

New York, N. Y., February 21, 1946.

UNION CARBIDE AND CARBON CORPORATION

UCC

A cash dividend of Seventy-five cents (75¢) per share on the outstanding capital stock of this Corporation has been declared, payable April 1, 1946, to stockholders of record at the close of business March 1, 1946.

MORSE G. DIAL,

Secretary and Treasurer

TC TENNESSEE CORPORATION **TENNESSEE CORPORATION**

A dividend of 25¢ per share has been declared, payable March 25, 1946, to stockholders of record at the close of business March 6, 1946.

61 Broadway New York 6, N. Y. February 19, 1946. J. B. McGEE Treasurer.

WOODALL INDUSTRIES, INC.

A dividend of 15c per share on the Common Stock has been declared, payable March 15, 1946, to stockholders of record March 4, 1946.

M. E. GRIFFIN, *Secretary-Treasurer.*

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Calendar of New Security Flotations

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shares are part of a recent offering of an aggregate of 525,000 shares offered by the company in Canada to its own shareholders at a price of $5 (Canadian) per share.

Address—2810 15 King Street, West, Toronto, Ontario, Canada.

Business—Mining.

Offering—The offering price is $5.10 (Canadian) per share, or the United States equivalent. Toronto Mines Finance Ltd. intends to offer 44,195 of such shares in blocks of not less than five shares to shareholders of Frobisher Exploration Co., Ltd., of record Dec. 15, 1945, as resident in the United States in the approximate ratio of one share for every 15 shares of Frobisher then owned by them, and to shareholders of Ventures, Limited of record Dec. 15, 1945, as resident in the United States, in the approximate ratio of one share for every 20 shares of Ventures then owned by them. The balance of the shares will be offered in Canada and the United States to such persons as Toronto Mines Finance, Ltd. may determine, who may include officers and employees of the company.

Proceeds—Proceeds from the sale of the present offering will go to the selling stockholder.

Underwriters — Toronto Mines Finance, Ltd., 25 King Street, West, Toronto, is named underwriter. It is wholly owned and controlled by its parent company, Ventures, Ltd.

Registration Statement No. 2-6169. Form S-3. (2-21-46).

SATURDAY, MARCH 16

EQUIPMENT FINANCE CORP. has filed a registration statement for 13,877 shares, 4% cumulative series 2 preferred, par $100, and 28,159 shares of common, par $10.

Address—1101 W. Belmont Avenue, Chicago, Ill.

Business—The company was organized Aug. 11, 1943, in Delaware, for the purpose of acquiring all of the assets and liabilities of Equipment Finance Corp. organized in Illinois on March 28, 1941. All of the business of the company, except in the case of the acquisition of certain trucks owned by employes of the Curtiss Candy Co., an affiliate and parent company of Equipment Finance Corp., has been transacted directly with the Curtiss Candy Co. and its operating subsidiaries. The principal business of the company, in its relations with Curtiss Candy, consists in the leasing of trucks to Curtiss Candy.

Offering—The price to the public is $100 per share for the preferred and $10 per share for the common stock. The company anticipates that all of the preferred and common will be sold to employes and officers of the company, and employes and officers of Curtiss Candy and its subsidiaries. In the event of a public offering, the company will file a post-effective amendment.

Proceeds—The estimated net proceeds, after expenses, is $1,659,290. The proceeds will be used to finance the acquisition of factory and warehouse buildings and in financing transactions in the form of loans to Curtiss and its subsidiaries. It is estimated that approximately $1,200,000, or the balance of the estimated proceeds, will be applied to the acquisition of approximately 1,100 trucks. The company has entered into a firm commitment for the purchase of 150 1-ton panel trucks at an aggregate cost of $1,500 each, and has also placed orders, subject to price approval, for the purchase of an additional 600 1-ton panel trucks at an aggregate cost of approximately $675,000. It is proposed to acquire additional trucks as soon as prices and delivery schedules are established.

Underwriters—The sale of the stock will be made through the company's own officers and employees.

Registration Statement No. 2-6170. Form S-1. (2-25-46).

INVESTORS SYNDICATE OF AMERICA, INC., has filed a registration statement for the following face amounts: Single payment certificates $8,025,000; series 6 certificates $15,000,000; series 10 certificates $25,000,000; series 15 certificates $100,-000,000, and series 20 certificates $75,-000,000.

Address—Roanoke Building, Minneapolis, Minn.

Business—Face amount certificates.

Offering—The certificates are of the installment payment type.

Proceeds—For investment.

Underwriters—Investors Syndicate, Minneapolis, Minn., is named principal underwriter.

Registration Statement No. 2-6171. Form A-1. (2-25-46).

DRUG PRODUCTS CO., INC., has filed a registration statement for 225,000 shares of common stock, par $1. Of the total 175,000 shares are being offered to the public through underwriters, and 50,000 shares are offered to warrant holders.

Address—19 West 44th Street, New York, N. Y.

Business — Manufacture of "ethical" pharmaceuticals.

Offering—The price to the public on the 175,000 shares offered is $4.50 a share.

Proceeds—The primary purposes of the financing is to retire certain existing loans, and to provide adequate working capital for additional research and research facilities, new product development and to embark upon a program for expansion of operations on a national scale.

Underwriters—Bond & Goodwin, Inc., is named principal underwriter.

Registration Statement No. 2-6172. Form S-2. (2-25-46).

CURLEE CLOTHING CO.—Francis M. Curlee has filed a registration statement as voting trustee for voting trust certificates covering 26,556 shares of class B common stock of Curlee Clothing Company.

Address—The address of issuer is 1001 Washington Avenue, St. Louis, Mo.

Purpose—The voting trust agreement terminates absolutely not later than Nov. 14, 1954. The voting trust agreement terminates upon the death of Francis M. Curlee, voting trustee, or upon its revocation by him in his lifetime. On Nov. 15, 1944, a modification of the plan of reorganization and recapitalization of the company was approved by the Reorganization Committee and mailed to the stockholders of the company. All stockholders assented in writing to the modification. The voting trust agreement has been signed by the owners and holders of 17,463 shares of class B common stock, all of whom have transferred their stock to the voting trustee, who has issued to all of them voting trust certificates. The total number of shares of class B common stock outstanding is 26,556.

Registration Statement No. 2-6173. Form F-1. (2-25-46).

SUNDAY, MARCH 17

BASSETT FURNITURE INDUSTRIES, INC., has filed a registration statement for 30,000 shares of common stock, par $5 per share. The stock is to be purchased from W. M. Bassett, President of the company, and is a portion of the outstanding common stock of the company which is owned by him.

Address—Bassett, Va.

Business—Manufacture of low and medium priced bedroom and dining room furniture.

Offering—The price to the public is $30 per share.

Proceeds—The proceeds go to the selling stockholder.

Underwriters—Scott, Horner & Mason, Inc., Lynchburg, Va., and Kirchofer and Arnold, Inc., Raleigh, N. C., are the principal underwriters.

Registration Statement No. 2-6174. Form S-2. (2-26-46).

HOOD CHEMICAL CO., INC., has filed a registration statement for 205,000 shares of common stock, par 33 cents per share.

Address — 1819 Broadway, New York, N. Y.

Business—Packaging for sale in consumer-size packages caustic soda, soda ash, calcium hypochlorite and chlorinated lime.

Offering—Price to the public $5 per share.

Proceeds—The proceeds will be used to replace funds already expended to defray costs of designing packages, etc., to purchase new packaging machines, to purchase new trucks and trailers. The balance will be used for general corporate purposes.

Underwriters — No underwriters. The company is undertaking to distribute its common stock directly to the public.

Registration Statement No. 2-6175. Form S-2. (2-26-46).

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.

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.

ALABAMA POWER COMPANY on Feb. 8 filed a registration statement for 300,000 shares of 4.20% preferred stock, par $100, cumulative from April 1, 1946.

Details—See issue of Feb. 14.

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.

ALLIED STORES CORP. on Feb. 6 filed a registration statement for 257,840 shares of common stock, without par value.

Details—See issue of Feb. 14.

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.

Underwriters — Lehman Brothers, New York, heads the underwriting group.

AMERICAN POTASH & CHEMICAL CORP. on Dec. 28 filed a registration statement for 478,194 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 478,194 shares of stock at public sale to the highest qualified bidder.

Bids will be received at office of the Custodian, 120 Broadway, New York 5, N. Y. before 11 a.m. EST on March 27.

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 of 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.

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.

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.

CHAIN STORE INVESTMENT CORP. on Feb. 8 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.

Details—See issue of Feb. 14.

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.

Underwriters — As to the preferred, Childs, Jeffries & Thorndike, Inc. and H. C. Wainwright & Co., and as to the common, First Colony Corp.

CHESGO MINES, LTD., on Dec. 26 filed a registration statement for 1,250,000 shares of $1 par value stock, non-assessable.

Details—See issue of Jan. 3.

Offering—The public offering price is 35 cents per share.

Underwriters—W. R. Manning & Co., Toronto, Ontario, Canada.

CHERRY-BURRELL CORP. on Feb. 8 filed a registration statement for 40,000 shares of cumulative preferred stock, par $100. The dividend rate will be filed by amendment.

Details—See issue of Feb. 14.

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.

Underwriters — The Illinois Company, Chicago, heads the underwriting group.

CINCINNATI MILLING MACHINE CO. on Feb. 8 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.

Details—See issue of Feb. 14.

Offering—The price to the public will be filed by amendment.

Underwriters—Union Securities Corporation heads the underwriting group.

CITY OF MONTREAL, CANADA on Feb. 4 registered $85,980,000 1¼% to 3¼% debentures, dated Feb. 1, 1946, to mature serially in various amounts on Nov. 1 of each year 1947 through 1975.

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.

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.

DALLAS YELLOW KNIFE GOLD MINES, LTD., on Feb. 8 filed a registration statement for 300,000 shares of capital stock, par $1.

Details—See issue of Feb. 14.

Business—Mining.

Offering—The 300,000 shares are offered at a price of 50 cents per share. These share are offered as a speculation.

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.

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.

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 holders of common stock of record Feb. 11 and to the holders of certain options for subscription on the basis of one share for each seven shares of common held at $12 per share. Rights expire March 4.

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.

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.

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.

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.

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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 $11.25 per share.

Underwriters—Lehman Brothers head 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.

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—Allison & Co. named principal underwriter.

MEAD CORP. on Jan. 24 filed a registration statement for 7,000 shares of $5.50 cumulative preferred stock, series B, with common stock purchase warrants attached and 14,000 shares of common stock (no par).

Details—See issue of Jan. 31.

Offering—The company will offer to all holders of the common stock of Columbian Paper Co. one-half share of $5.50 cumulative preferred, Series B, with warrants for purchase of common stock, and one share of common stock for each share of Columbian common stock, in each case with all dividends paid or payable thereon by Columbian during the period of the offer.

Underwriters—The offer is not being underwritten.

MERCK & CO., INC., on Feb. 8 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.

Details—See issue of Feb. 14.

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.

Underwriters—Goldman, Sachs & Co. and Lehman Brothers head the underwriting group.

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.

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.

NICKEL CADMIUM BATTERY CORP. on Nov. 23 filed a registration statement for 35,000 shares of capital stock, par $10.

Details—See issue of Nov. 29.

Offering—The price to the public is $10 per share.

Underwriters—None. The securities are being offered by the corporation.

Registration Statement withdrawn Dec. 29, 1945.

OKLAHOMA GAS & ELECTRIC CO. on Feb. 7 filed a registration statement for 675,000 shares of 4% cumulative preferred stock, par $20.

Details—See issue of Feb. 14.

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.

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.

PALESTINE ECONOMIC CORP. on Dec. 28 registered 20,000 shares of common stock, $100 par value.

Details—See issue of Jan. 3.

Offering—The offering price to the public is $100 per share.

Underwriting—No underwriting.

PHILIP MORRIS & CO., LTD., INC. on Jan. 16 filed a registration statement for $15,000,000 20-year 2½% debentures, due Feb. 1, 1966.

Details—See issue of Jan. 24.

Offering—The price to the public will be filed by amendment.

Underwriters—Lehman Brothers and Glore, Forgan & Co. head the underwriting group.

Public offering indefinitely postponed.

PORTLAND MEADOWS on Dec. 20 filed a registration statement for $900,000 10% unsecured notes due Jan. 1, 1971.

Details—See issue of Jan. 3.

Offering—The offering is to be at par, with total net proceeds to the corporation placed at $900,000.

Underwriters—No underwriter named.

PRATT'S FRESH FROZEN FOODS, INC., on Jan. 16 filed a registration statement for 450,000 shares common stock, par $1, and 120,000 stock purchase warrants for one share of common stock, par $1, and the shares isuable upon exercise of such

Details—See issue of Jan. 24.

Offering—The price to the public is $6 per share. The company has agreed to sell to the underwriters an aggregate of 120,000 common stock purchase warrants and to two individuals, who rendered certain services in connection with the financing, an aggregate of 30,000 common stock purchase warrants, in each case at a price of one cent per warrant share. The warrants entitle holder to purchase stock at $6 per share.

Underwriters—R. H. Johnson & Co., New York, N. Y., is named principal underwriter.

RAILWAY & LIGHT SECURITIES CO. on Feb. 7 filed a registration statement for 20,392 shares of 4% cumulative convertible preferred stock, par $100.

Details—See issue of Feb. 14.

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 3 shares of common held at a price to be filed by amendment.

Underwriters—To be filed by amendment.

RED BANK OIL CO. on May 31 filed a registration statement for 990,793 shares of common stock (par $1).

Details—See issue of June 7.

Underwriters — Principal underwriter Bennett & Co., Inc., Dallas, Texas.

Stop Order Hearings—Stop order hearings to determine whether the effectiveness of registration statement should be suspended now pending before the SEC.

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.

SCRANTON-SPRING BROOK WATER CO. on Feb. 8 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.

Details—See issue of Feb. 14.

Offering—The bonds and preferred stock will be sold at competitive bidding and the offering price filed by amendment.

Underwriters—The names of the underwriters will be filed by amendment.

SINCLAIR OIL CORP. on Dec. 26 filed a registration statement for 150,000 shares of common stock (no par). The shares are issued and outstanding and are being sold by a present stockholder.

Details—See issue of Jan. 3.

Offering—The price to the public will be filed by amendment. The statement says shares purchased upon the initial offering will carry the right to receive the dividend of 25 cents per share which has been declared payable on Feb. 15, 1946, to stockholders of record Jan. 15, 1946.

Underwriters—Kuhn, Loeb & Co.

TEXTRON, INC., on Dec. 28 filed a registration statement for 300,000 shares of 5% convertible preferred stock, par $25.

Details—See issue of Jan. 3.

Offering—The price to the public will be filed by amendment.

Underwriting—To be filed by amendment.

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.

(This List Is Incomplete This Week)

OPA Will Hold the Line

(Continued from page 1087)

spectable groups in our society as bankers were subject to the shafts and barbs of dissent and disunity. I am perfectly willing to concede that today we are served by no one but good bankers. I am ready to subscribe to the view that all the bad and evil fellows in your business have died off or have been paroled and are out of the business. I am willing to adopt the philosophy of that great statesman of the pre-civil war days from Missouri, the fiery Thomas Hart Benton, who was asked, when his long-time political foe, John Calhoun of South Carolina, had died, if he intended to pursue him beyond the grave. Senator Benton's response was as emphatic as it was magnanimous. "No, sir," he said, "when God Almighty lays his hand upon a man, I take mine off."

I suspect that you have already surmised that the reason I have been dwelling upon bankers is to keep my mind off OPA. As I have indicated, I have been receiving a lot of advice recently. Going forth to battle inflation, one friend called me and repeated the injunction of the Spartan mother to her soldier son: "Return *with* your shield or *upon* it." And while I go into the battle with determination, I do not bring a doctrinal attitude. It's not that kind of fight. There is no place in this fight for stabilization for labels, for banners of the left or the right.

Policy Adopted

According to one suggestion I have received, I should become a kind of a concessionaire for inflation, handing out exemptions and price increases gaily and freely just to make everybody happy. According to another, I should adopt the platform of Rehoboam: "And now whereas my father did lade you with a heavy yoke, I will add to your yoke; my father chastised you with whips, but I will chastise you with scorpions." I propose to follow neither of these courses if I can help it, but to attempt to utilize necessary controls to expedite production without the sacrifice of stability. And I believe it can be done.

Permit me to emphasize that in spite of what you may hear to the contrary, OPA is not in receivership. I have not assumed the job of a liquidator. OPA is a going concern with a faithful and loyal staff that has done much for America and is going to do more. I have undertaken a quick inventory during these past 10 days. I have tried to find out just who is opposed to price control and rent control and to determine in a general way just what OPA has been up to. Let me give you some of my preliminary findings.

First, just who is opposing price control? Most people know that existing inflationary pressures are going to be hard to handle. That's the very reason why this is no time for crepe-hanging. We can control inflation. The record of the last two and a half years shows that very clearly. Of course, from here on out it's going to be a tough job. But doing that job won't be nearly as rough on any of us as what we will go through if we don't do it.

I'm sure bankers know that the least expensive way out of the dangers we face is to make price control work. In fact, one of my great comforts is that the American people know that too. They are overwhelmingly for it. Opinion polls such as Gallup's show that about three-fourths of the people want price control until supply and demand get safely back in balance. Less systematic newspaper and radio polls show about 90% of the general public favoring controls as long as they are needed.

It's not the veterans who are opposing price control. Their reaction to new houses priced at $10,000 was violent enough to be pretty revealing. They made it plain that there was going to be very few houses sold to veterans at more than $6,000.

It's not the farmers. They are disturbed about the continued need for subsidies. But they know that the supply of most farm products is much more nearly in line with demand than most of the things farmers buy. Removal of price controls now would shoot the prices of machinery, trucks, fertilizer, and household equipment out of sight.

It's not the thousands of small businessmen. Most of them know that they could never compete for fair shares of limited supplies if inflation undermined the value of their small financial reserves. They know that inflated prices mean fewer sales and uncertain markets. They know that they could not plan either production or delivery schedules that way.

It's not organized labor. They have always been among the most outspoken about the need for keeping prices at levels that let wages buy shelter, food and health services. They know that inflated prices force people to buy less. They know that when people buy less, jobs disappear.

It's not the insurance companies. They know very well that people are not going to buy insurance policies that are apt to be paid off in cheap dollars. Insurance companies have spent millions of dollars on a tremendous program of anti-inflation ads and newsletters.

It's not the bankers. They know too much about the hazards of making loans to finance enterprise at inflated costs. They know too much about the loans that can't be collected when inflated prices crash. They know too much about what happens to the volume of bank loans when deflation puts enterprise in the doldrums.

This doesn't leave very many to oppose the idea. But there are some critics who seem to want to pawn America's future for a pot of paper profits. Let's take a look at what they say.

Criticisms of Price Controls

They say that price control interferes with production. This is nothing new. We have heard it over and over again. We heard it back in 1941 and 1942 when price control was supposed to be throwing a monkey wrench in our war production machine. But during the war, with price control, production more than doubled. During World War I, with practically no price control, production rose only 25%.

Tonight, just five months after V-J Day, both employment and production also stand at record peacetime peaks. Production is 51% above 1939. We have 6½ million more people working and getting pay checks than in 1939.

We are all disturbed by the problems that complicate reconversion. But we have moved ahead on a much bigger reconversion job this time more rapidly than we did after World War I when the job was much smaller. Last November, just two months after the inevitable post V-J Day slump, production began to climb upward. It has been going up ever since.

"Price Control Aids Production"

As a matter of fact, the record of the stumbling blocks that smashed us into a depression after World War I shows pretty clearly that during abnormal reconversion conditions, price control actually aids production. Without price control speculators hoard both raw materials and semi-finished parts to be sold later at higher prices. Hoarded materials and parts don't get on assembly lines and store shelves. This creates artificial shortages. Production lines are slowed up.

Hoarding and speculation inflate production costs still more rapidly. Producers cannot predict what costs will be next month. What is equally bad, or worse, no producer knows how soon prices will become so high that buying will slump. No one knows how big his market will be. Big volume production becomes more and more of a risk. This is far from a climate that encourages investment of time and money in expanded enterprise.

Such conditions are especially tough on the thousands of small businesses on which democratic, competitive America depends so much. Most of those firms have small reserves with which they plan to finance peacetime production. Inflation cuts the value of those reserves. As costs rise they are less able to compete for their fair shares of materials and parts. Inflation knocks them out before they can get started.

This is exactly what led the way to the smash that followed World War I. Finally, just what has OPA been up to during the war and since V-J Day? OPA is supposed to be driving business into bankruptcy because it is inflexible.

Let's look at the facts.

Has Price Adjustment Program

All during the war OPA had a broad price adjustment program. Of course mistakes have been made. But ever since the General Maximum Price Regulation was issued in March 1942 a large part of the price control program has been devoted to making adjustments in accord with OPA standards.

Since V-J Day OPA has set up a complete adjustment program for reconversion industries and modified all of its adjustment provisions to fit the needs and objectives of the transition period.

Since V-J Day OPA has made 459 industry-wide adjustments. It has also made 4,788 adjustments for individual firms. The new wage-price policy speeds up this procedure. In effect, OPA has always had a floor under profits. Whenever any industry can show that its earnings are below peacetime levels it gets a price adjustment.

A look at the profits of various types of industries completely shatters any claim that price ceilings have made production unprofitable. Because of tax adjust-

(Continued on page 1132)

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OPA Will Hold the Line

(Continued from page 1131)

ments made in 1946, 1944 is the last year for which we have complete profit figures. In 1944 corporation profits, both before and after taxes, topped all previous records. Before taxes, they totaled 24.8 billion. After taxes they totaled 10 billion—more than twice as high as in 1939. In 1944 industrial profits on the average were 450% above prewar levels. Wholesale and retail profits exceeded those of prewar years. The average increase for department stores was 609%.

Big and small business alike shared in these increases.

Profits Will Be at Record Heights

In 1946, with excess profits taxes repealed, it is expected that profits after taxes will be at record heights.

The overall effect of price control on business can be measured by the trend in business failures. In 1945 business failures reached an all-time low of 810 as compared with 14,168 in 1939. Of course, no one claims that price control is what has cut failures so drastically, but the figures certainly show the claim that price control has caused bankruptcies to be absurd.

Recently these general charges have been camouflaged into an argument that might at first appear rather plausible to anyone who was not a banker. This argument concedes that overall stabilization is necessary. But just a little inflation would stimulate more productionn because there would be more profit.

If America was made up of isolated units this argument might have some merit. But one of the big facts of our modern specialized economy is that most groups are inseparately interrelated. One man's price is the next man's cost. Throughout the price control program experience has shown that many *necessary* price increases at one level of production can be absorbed at other levels, or by sellers. The use of this cost absorption principle has been the very keystone of the price control program. But now if we applied the principle of "a little inflation" freely across the board, we would soon be riding far beyond the capacity of most producers and sellers to absorb. Then price increases at one level would be passed through all other levels right on the retail stores. Living costs would go up. Terrific pressures would soon push wages up. The inflationary spiral would be loose. That would be very bad business.

Bankers have always played a leading part in the saga of America's progress.

They have financed the proud forward moves of America's pioneers. On the way we have learned how to use science and trained men and automatic machines to produce the world's best living standards here at home and at the same time help other parts of the world profit from the gifts of the power age.

Inflation Cannot Bring Normal Prices

Now there come a few prophets of doom mumbling that we have reached the end of that big production road. They say the only way we can proceed from here on out is to devalue America's big earnings and savings. They say we'll have to water down the value of America's insurance policies and investments. They say that the war left us with so much money that we'll have to let inflation bring buying power and living standards back to "normal."

Since when has America ever "settled down" to normal? Since when has America ever "gone back" to anything? Since when have there been too few pioneers to nurture new opportunities and set new records?

Of course, we now have too much money to do business at prewar volume and live at prewar standards. But on what authority, and in what spirit, do a myopic few say we Americans have ever solved any problem by chaining ourselves to past standards? Our war production record proves that there is no need to sidestep our present problem that way. It would be tragedy to call such a retreat a solution.

Of course we will soon have inflation if we use our huge warborn financial reserves to bid up the prices of things produced at prewar volume. That would jeopardize every investment, every savings account, every wage and every insurance policy in America. But we are not going to do it that way. America has its eyes on expanded markets and decent living standards for more people. We are going to use our big financial reserves to expand production. We are going to produce enough new capital equipment and new consumer goods to make every dollar of these reserves buy a sound dollar's worth.

Will Hold the Line

Let me assure you that we are going to hold the present price line and make that possible. But there's no point in kidding ourselves. The pressure against that line is terrific. We are face to face with critical dangers that inflation will destroy all we have and blast us into a future of limited markets, constricted earnings and needless poverty.

America made an investment in the war to save ourselves and the world from enslavement by the fascist gangsters—an investment of 300 billion dollars in money and the lives of 248,161 American boys.

To turn back now would result in wiping out that investment and would bankrupt us financially and spiritually.

Having been drafted for this post-war battle, I can only promise you that I will give it all that I have. I don't propose to let up until the tide of production has eliminated the threat of inflation and victory is ours.

In the meantime, I humbly suggest that we all keep our eyes on the main issues and not let diversionary tactics sap our strength. Perfection is a beautiful thing, but until that millenial stage arrives, I take courage from the words of Walt Whitman:

"We know well enough that the workings of democracy are not always justifiable in every trivial point. But the great winds that purify the air, without which nature would fall into ruin—are they to be condemned because a tree is prostrated here and there in their course?"

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