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Soviet Withdraws From Council Sabotaging UNO

By A. WILFRED MAY

Delegate Gromyko Refuses to Abide by Security Council's Decision to Hear Iran's Complaint. Thereupon, in Explaining His Objections to Delay, Iranian Representative Charges That Russian Troops' Presence Is Inconsistent With Sovereignty Rights, and Is Interfering With His Government and People; and Denies the Existence of the Alleged Agreement for Their Withdrawal. Complete Contradiction Between Moscow's Appeasing Words and Her Actions Are Quickly Revealed. Gromyko Performed as a Brilliant Advocate of a Bad Case. The Veto-Rule Controversy Is About to Be Intensified.

HUNTER COLLEGE, New York, March 27—With Delegate A. A. Gromyko's dramatic stalking out of the Security Council Hall here late this afternoon went a goodly share of humanity's hopes for peace. The Soviet Government's non-cooperative attitude toward the United Nations' spirit, after smoldering through the appeasements of San Francisco and London, finally exploded here.

A. Wilfred May

The immediate cause of today's rupture was the insistence of the Council members, excepting only Russia and her Polish satellite, that consideration of Iran's complaint be not postponed. But more important than this immediate issue was the fundamental principle, so forcefully championed by Secretary Byrnes, that if the prescribed rights of the small nations—not members of this higher Council—be disregarded, then the world's confidence in UNO would be permanently destroyed.

Today's arbitrary and unilateral action, obviously dictated by Moscow, made a mockery of her last week's solemn assurances by radio and press conference. It makes crystal clear the Soviet's philosophy that it will play the game only when the rules are changed to fit its own demands.

Soviet Puts Up Bitter Fight

Against the inexorable logic of Secretary Byrnes, Mahmoud Hassan Pasha of Egypt, Sir Alexander Cadogan of the United Kingdom, and Mr. Van Kleffens of the Netherlands, Soviet delegate Gromyko went down fighting to the bitter end. In filibuster-fashion

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The 100% Money and Other "Reserve" Proposals

By WALTER E. SPAHR

Professor of Economics, New York University
Executive Vice-President and Treasurer, Economists' National Committee on Monetary Policy

Economist Cites the Numerous Historical Monetary Fallacies Advanced Since 1932, Particularly the Many Suggested Devices Based on Fiat Paper Money. He Traces in Full Detail the Schemes for "100% Money" From Those of Irving Fisher to the Current Proposals by Professor Leland, Professor Seltzer, and the Committee on Economic Development. Dr. Spahr Charges That All These Plans Involve Misuse of the Term "Reserve." He Declares That the Seltzer Proposal Would Make the Treasury the Dictator, and Effect Centralized, Federal, Executive, Totalitarian Management of Our Money, Banks, Credit, and Prices. Disapproves of the Leland Plan as Completely Overlooking the Proper Relationship of a Central Bank to Its Member Banks, and the Relationship of the Government to the Money Markets. The CED's Recommendations, It Is Charged, Represent the Most Extreme Scheme for Dictatorial and Totalitarian Control Over Money, Prices, and Fiscal Affairs.

The years since 1932 seem to be characterized in this country by a peculiar disease in the field of money: It is the attempt to uncover practically every fallacy known in monetary and political history and science and to offer it as a solution to some monetary, banking, or other economic problem. No monetary plan, regardless of how much evidence history might yield as to its absurdity, seems to be too ridiculous or dangerous to get advocates—often surprisingly respectable ones.

Walter E. Spahr

These old fallacies have in some instances been dressed up in a slightly new garb, sometimes in-

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Financial Facts and Fancies

By THOMAS I. PARKINSON*

President, The Equitable Life Assurance Society

Mr. Parkinson Calls Attention to the Increasing Money Supply Which Has Resulted From Monetization of Government Deficits, by Having the Banks Create Deposits Through Purchases of Bonds. Sees No Immediate Reversal of This Trend and Warns That Banks as Well as Others Will Suffer From Excessive Increases in Deposits and Monetary Inflation. Urges That We Get Bonds Out of the Banking System and That the Federal Reserve and Congress Alter Policy of Low Interest Rates and That a Monetary Commission Be Created to Formulate a New Fiscal Policy.

T. I. Parkinson

Why do we turn with adoring eyes and appreciation to other so-called democracies without constantly emphasizing the glory of this American constitutional government? I would like to hear a little more of praise and boasting about America along the line that the great Russian leader boasted of his own country and its government a short time ago. Yes, I am for America and for America's form of government.

But that has nothing to do with your immediate concerns or my subject. The fact is that in 1929 the banks made loans to corporations and individuals on the basis of a market which they had made by their previous loans. Today

*An extemporaneous address by Mr. Parkinson at a meeting of the New York Society of Security Analysts, March 25, 1946.

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Is a Stock Market Collapse Coming?

By LLOYD W. MAXWELL*

Mr. Maxwell Lists New Market Factors Which Have Led to Rise in Security Prices as (1) the Shrinking Supply of Stocks and Bonds; (2) the Plethora of Money; and (3) Eagerness of Banks to Invest Deposits. Holds There Has Been No Unorderly Stock Speculation and That Speculation and Price Advances Are More Rampant in Real Estate, Farm Lands and Commodities. Contends There Is No Inherent Cause for a Stock Market Crash, and if One Comes, It Will Be Due to Outside Conditions, Such as Political and Other Action Destructive of Private Enterprise. Points Out Level of Stock Price Advances Has Been Less Than After Previous War or in Other Recent Boom Markets.

Wall Street and the Stock Market are ever present subjects of discussion. Judging by observation in recent years, a writer on either topic almost has to be a critic if he wishes to please the public and find a publisher. Nor has there been any shortage of critical writers. All sorts of magazines and Sunday Supplements have been harpooning Wall Street, and many of the so-called analyses are sadly lacking in thoroughness and accuracy. In brief, the eyes that profess to see Wall Street too often seem to be astigmatic. They distort many things in the picture and omit numerous things that should be included.

Lloyd W. Maxwell

About nine months ago a wave of Wall Street jitters was injected into the public press—fear that Wall Street was in a boom, and that a collapse was imminent. One article, in the Reader's Digest

*Mr. Maxwell is Economist and Statistician for Louis H. Whitehead Co., New York City.

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Rude Awakening!

By MELCHIOR PALYI

Asserting That the Calling of Russia's Bluff at the London Conference of the UNO Resulted in That Country's First Diplomatic Defeat Since 1942, Dr. Palyi Points Out That, at Same Time, the Allies Themselves Have Made a Fiasco of Their Policies. Says U. S. and Britain Have Forced Double Dealing on China and That Russia's "Iron Curtain" in Europe Has Disrupted Europe's Economic System. Praises Strong Attitude Toward Russia and Accuses Latter of Encouraging World Revolution and Communistic Ideology, When Britain Is Weakest and the U. S. Is War-Weary. Holds There Is No Necessity of War, but There Will Be Unending Tensions and Crises Forcing an Armed Truce.

Russia's First Defeat

"Take them on one by one" was a *leitmotiv* of the Hitler-Ribbentrop diplomacy, and it worked for a while. Similarly, a prime objective of Soviet foreign policy consists in driving wedges between the western Allies, playing up to American antagonism against Britain, French feelings against both, and Central European and Middle Eastern resentments against the West. They cleverly utilize for this purpose the UNO itself, in addition to all devices of publicity and diplomacy, supported by the fifth column methods of Communist parties and fellow-travelers. Sympathies for Britain were to be alienated here and abroad by rattling the bones of British imperialism in Greece, India, Egypt and Indonesia; by charging that the British "threaten" Russia by Polish and Nazi armies; that they support Fascist regimes in Spain, Italy and Greece; that they use Japanese troops against natives whom they supposedly mistreat; that they are preparing a western bloc (while in reality Moscow is organizing and arming an eastern bloc) etc., etc.

Dr. Melchior Palyi

Already during the war the blame for the lack of a second front was being put at London's doorstep. Since, Moscow questions at every turn England's motives, alleges sinister intentions, ignores all friendly gestures (such as Bevin's offer to lengthen the Russian-British alliance to 50 years) and carries on an unrelenting campaign that goes so far as to incite trouble among the Arabs, Indians, Javanese, etc. At the same time, Russian criticism of the U. S. A. was conspicuous—until a month ago—by its absence or relative mildness. Even the attacks on MacArthur were tuned down, and Soviet dissatisfaction with our policies in Japan is expressed mainly through non-participation.

Moscow's bluff in playing up one ally against the other has been called. The end of that policy was ushered in by sharpening dissension with Washington on such "minor" issues as Austria, Korea and Bulgaria. The Iranian and the Manchurian conflicts brought U. S. diplomacy fully on Britain's side. That is the positive meaning of the verbal lashing which one American spokesman after the other administered to Russia, climaxing in the protests notes of Mr. Brynes on account of Russian behavior in Manchuria and Persia. Their meaning is clear at least on one point: that our foreign policy cannot be separated from the British (and the Chinese?). That is the first major defeat, or rather the first rebuke, Russian diplomacy has suffered since 1942.

Anglo-American Fiasco

However, if the Kremlin has to recognize this development as a rebuke, the Allies have every reason to view it as a complete fiasco of their own policies. For almost five years they have been

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Are Price Controls Necessary For the "Unprotected"?

By F. A. HARPER*
Professor of Marketing, Cornell University

Asserting That Price Controls Are Adaptation of False Notion That Government Can Perform Temporal Economic Salvation, Prof. Harper Argues That Such Controls Tend to Become Permanent. Points Out That Greatest Production and Protection of Poor Comes Without Price Controls, Since Controls Clog the Economic Pipe Lines and Reduce the Size of the Melon to Be Divided Among Consumers, as Well as Causing Its Inequitable Distribution. Contends Controls Generate Wholesale Unprotection and Foster Practices of National Socialism, Make People Waste Time Waiting in Line, Create Black Markets and Put Premiums on Dishonesty. Concludes "We Should Junk the Entire Control Machine Now."

It is claimed that wage and price controls must be maintained to protect the American people against disaster. We must inquire: Protect against what disaster? Protect all of the people or some of the people? Do these controls accomplish what is claimed for them?

F. A. Harper

This is no small subject. What we are really discussing is the whole general philosophy that has been sweeping across this country and a large part of the "civilized" world. It is a reversion to the pattern of most of history—the belief that *government* can perform temporal economic salvation for the people. This country was founded, and has enjoyed unique success, in the belief that the reverse was true. Wage and price controls are an adaptation of that historically unsuccessful notion.

Protection Against What?

It is impossible to be protected against nothing. The protectionist argument can have no meaning unless there is a threat or a fear, real or imagined.

What are these fears? Consumers fear inflation and producers fear deflation; governmental officials apparently fear both at the same time, which may be called uncertainty and confusion. Producers fear that wage rates will go up and workers fear that they will not. Business fears falling profits. The returning veterans fear that they will have to continue to live in tents. The ladies fear no nylons, the men fear no shorts, and the shorts fear a bull

*An address by Prof. Harper before the General Session of the National Industrial Conference Board, New York City, March 21, 1946.

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Inflation Under Price Controls

By ALAN H. TEMPLE*
Vice-President, The National City Bank of New York

Asserting That the Increase in the Supply of Money Is the Original and Primary Source of Inflationary Pressure, Mr. Temple States That Price Control Does Not Operate to Reduce the Money Supply or Prevent Its Further Increase. Contends Also That Low Interest Rates Are a Further Inflationary Pressure Not Affected by Price Controls. Holds Direct Attack on Basic Causes of Inflation Can Be Made Through a Monetary and Fiscal Policy That Reduces Money Supply, and Attacks Recent Wage Increases as Intensifying Inflationary Trend. Says Price Controls Restrict Producton and Urges That if Price Control Act Is Continued, It Should Be Less Restrictive, Since the System of Free and Voluntary Association in Productive Enterprise Cannot Function Properly Under It.

Inflation means different things to different people. The most useful description of inflation, and the one best calculated to promote sound thinking as to its cure, is one which emphasizes its causes rather than its effects. In inflation three conditions exist. One is that people have a lot more money than before. The second is that they spend more freely instead of saving the excess. The third is that there are not goods and services in the markets to satisfy the enlarged demands. These conditions push prices up. The price increases are the effect, the consequence, of the three basic inflationary influences.

Alan H. Temple

All wars have resulted in inflation, because in war the increase in government debt leads to an increased supply of money. At the same time a large part of current production is for war instead of civilian use, and the goods are not available for purchase by the people who receive the money. The war is over, and the war goods

*An address by Mr. Temple before the 277th meeting of the National Industrial Conference Board, New York City, March 21, 1946.

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Replacing Resigned Securities Commissioners

SEC Vacancies Afford Important Opportunities for Relief to Securities Industry by Proper Replacements. Appointment of Political Hacks or the Moving Up of Present Employees of the Commission Opposed. Some Qualifications Suggested. Background of Prospects Should Be Publicized. Dealers, Brokers and Underwriters Through Their Congressmen Should Arrange for Commendable Recommendations.

The resignation of Commissioner Sumner Pike becomes effective April 30.

In the meantime, Chairman Ganson Purcell has also tendered his resignation, which is now on the desk of the President.

If that resignation is accepted there will be two vacancies to be filled, and the calibre of the replacements is of vital importance to all those whose activities are affected by the rulings of the SEC.

Understanding the significance of the patronage system,

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Production or Unrealistic Controls?

By ROBERT A. SEIDEL*
Vice-President and Comptroller, W. T. Grant Company

Contending That OPA's Current Unrealistic, Theoretical and Unfair Approaches to Pricing Problems Are Impeding Production and Throttling Industrial Activity, Prominent Retail Executive Urges That Industry Insist That Congress Restrict It and Require Removal of All Inflationary Controls. Cites OPA Powers That Require Elimination or Restriction and Gives Illustrations of How High-Priced Novelties Are Obtainable When Consumer Essentials Are Lacking. Denies Industry Favors Inflation or Resists Realistic and Honest Regulations and Accuses OPA of Using Gestapo Methods. Attacks Cost-Absorption Policy.

Robert A. Seidel

The stupidity and incompetence of the Office of Price Administration is costing the American consumers billions of dollars per year, and it is high time that consumers be advised of the real effect of unfair and unworkable pricing regulations. Now our brain trusters in Washington have a new "prize package" which they call a "Wage-Price" formula containing new and more complicated methods of curtailing production, squeezing profits and stimulating inflationary trends. It's hard to

*An address by Mr. Seidel before the 277th meeting of the National Industrial Conference Board, New York City, March 21, 1946.

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The Inflation Outlook

By ROBERT R. WASON*
President, National Association of Manufacturers

NAM Executive Asserts That We Are in the First of Two Stages of Inflation, and That a Policy Should Be Put Into Action to Prevent the Second Stage, "Runaway" Inflation. As Safeguards Against Runaway Inflation He Proposes (1) All-Out Production by Elimination of Price Controls; (2) A Sound Wage Policy; and (3) A Sound Fiscal Policy With a Balanced Budget of Not Over $20 Billions. Contends OPA Is Impeding Production and That Price Ceilings Will Not Hold. Says Nation's Economy Must Be Expanded to Meet Heavy Increase in National Debt.

It is fitting that inflation be discussed in New England. Here, where dwell 24% of the American people, are 17.3% of the savings (savings and time deposits) of the nation. The rigors of the New England climate and the limited fertility of your granite hills long have taught you the toil and thrift that made New England great.


Robert R. Wason

In an era of public debt and deficit, New England adheres to the gospel of economy, of work and of common sense that always kept us free, and that alone can regain our liberties lost in thirteen years, peace and war. Here in New England, the arts and crafts had their earliest and highest expression. It was here that American manufacturing received its first and best lessons. Lacking coal and iron, New England built its factories in Boston and on the waterfalls of the Connecticut and other rivers. Lacking raw materials, it built ships that searched the seven seas and brought the riches of other lands to make New England rich in every generation for the past two centuries. Yankee ingenuity devised ways and means of fabricating goods for available markets that now are imitated and reproduced throughout America and in other parts of the world.

When labor was scarce, you produced tools that increased labor's productivity. When markets in the West expanded and quantity manufacturing was needed, New England produced repetitive tools that are the foundation of the American machine tool industry. In New England you have many of the finest precision tool manufacturers in the world.

When the leather industry grew to large proportions in New England, you financed the industry in all parts of the world. The First National Bank of Boston

*An address by Mr. Wason before the Boston Chamber of Commerce, Boston, Mass., March 21, 1946.

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Contests NAM Views on Inflation

Chairman Eccles of FRB Holds Enormous Accumulation of Savings and Liquid Assets Are an Inflationary Menace. Questions Wason's Interpretation of Figures.

Chairman Marriner S. Eccles of the Federal Reserve Board issued a statement on March 25 in which he attacked the testimony of President Wason on the National Association of Manufacturers to the effect that the enormous accumulation of liquid funds available to the general public does not constitute an inflationary danger at this time. The text of Mr. Eccles' statement follows:


Marriner S. Eccles

NAM on Liquid Assets

President Wason of the National Association of Manufacturers in his testimony in opposition to the extension of the Price Control Act on March 18 commented on an earlier statement by Mr. Bowles with regard to the inflation potential inherent in the accumulation of wartime savings. In discussing consumer demand, Mr. Bowles stated that wartime savings of the people now amount to $145 billions. He appraised the significance of these savings as follows:

"Should people, whether consumers or businessmen, once lose confidence that the price line will be held and rush to meet future needs ahead of anticipated price increase, these vast wartime savings could throw the Nation into a wild inflationary scramble exceeding any it has ever experienced."

Mr. Wason apparently interprets Mr. Bowles figure of 145 billion as referring to the Federal Reserve estimate of liquid assets (that is currency, deposits and U. S. securities) held by individuals and trust funds at the close of 1945. Although Mr. Bowles' reference was to different data, Mr. Wason's interpretation will be followed for purposes of these comments.* How, then, does Mr. Wason manage to reduce his initial figure of $145 billions to a mere $17 billions, and how does he conclude that these assets do not constitute an inflationary danger if only production is allowed to expand without price ceilings?

Mr. Wason's Figures

(1) At the outset it must be noted that Mr. Wason's total of $145 billions is no overall figure for liquid assets held by the public. It is limited to personal holdings only and excludes holdings by corporations and unincorporated businesses. If $52 billions of corporate holdings (excluding banks and insurance companies) and $28 billions of holdings by unincorporated businesses are added, the overall figure for December, 1945 becomes $225 billions.† Business demand at this time is as much a part of the inflation problem as are purchases by consumers. The danger of excessive inventory accumulation is an important factor. Thus, liquid assets held by businesses, as well as by individuals, are part of the broader picture.

(2) Even the $225 billion holdings for these groups is not all inclusive. It excludes Treasury deposits which will be added to private cash holdings and checking

*Figures used by Mr. Bowles were derived fom Dept. of Commerce estimates of individual savings during the war period. By coincidence the total happened to be the same as FRB figures for total personal holdings of liquid assets as of Dec. 31, 1945. Accordingly, Mr. Wason's interpretation is readily explained.

†For a breakdown of these figures, see Federal Reserve Bulletin for February, 1946, p. 123.

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A Post-War Economic Policy

By BERNARD M. BARUCH*

Elder Statesman Recommends a Series of Proposals, Chief Among Which Are: (1) Increased Production; (2) Curtailment of Increasing Money Supply; (3) Maintaining High Taxation for Balanced Budget; and (4) Cessation of "Bunking" the Public by Saying Wage Increases Can Be Granted Without Increasing Prices. Wants Price and Wage Controls Modified and Continued for a Year and Action Taken to Stimulate Small Business, but Says Price Controls Alone Will Not Be Effective. Denounces the "Race of Selfishness" and Warns That the Price Structure Should Not Be Interfered With. Criticizes New Wage-Price Policy as Causing Price Increases All Along Line, and as Squeezing Taxable Profits. Holds We Should Take Stock of Our Resources Before Financially Aiding Other Nations.

I feel honored at being requested to appear before you on the important subject of price control.


Bernard M. Baruch

In these days of speed and emergency, it is good practice to put suggestions in a form so that "he who runs may read," and to aid the digestion of his reading I am submitting at the outset, certain of my ideas in capsule form. Here they are:

Increase production. This is the Law and the Prophets—without it the rest of my suggestions are meaningless. So I say again: "Increase production."

Stop increasing money supply.

Stop decreasing taxes until budget is balanced.

Stop bunking the public by saying wage increases can be granted without increase in price levels.

Do not fear to increase prices or wages where necessary to get and stimulate production.

Continue price controls, subject to indicated modifications, for a year. Allow profit but no profiteering.

Avoid favoritism to any particular group.

Take care of those between the millstones — clerks, government employees, pensioners, et al.

Make surpluses of goods in military hands available to compensate for shortages.

Stimulate founding and financing Small Business.

Take stock before blindly lending—make inventories of our goods, our cash, our credit before we increase the pressure on these.

Save in Time of Inflation

Cut Government costs, including Federal, State, County and City. In time of deflation we should spend; in time of inflation we should save.

Eliminate all strikes or lockouts for a year but arrange that hardships are guarded against.

Set up a High Court of Commerce—a sort of Supreme Economic Council which can decide

*Statement of Mr. Baruch before the House Banking and Currency Committee, March 25, 1946.

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The Marketing of The World Bank Bonds

By WALTER C. LOUCHHEIM, JR.*

Advisor on Foreign Investments, Securities and Exchange Commission
Technical Expert at Inaugural Meeting of World Fund and Bank

Mr. Louchheim Discusses Various Methods Available to the International Bank in the Marketing of Its Direct Obligations and the Guaranteed Bonds in the U. S. Predicts That Bank Will Not Have Investment Bankers Underwrite Its Obligations, but Will Use Their Services and That of Other Institutions as Selling Agents. Says Bank Has Authority to Engage in Market Stabilization Operations, and That Bonds Guaranteed by Bank Can Be Marketed Through Private Negotiations. Lists as Probable Purchasers, the Commercial Banks, Trust Funds, Charitable Institutions and Individuals. Sees Need of State Legislation to Permit Insurance Companies and Savings Banks to Invest in Both the Direct and Guaranteed Issues of the Bank.


W. C. Louchheim, Jr.

This article will discuss two questions which the directors of the International Bank for Reconstruction and Development will face shortly after beginning operations, that is within the next six months. The questions are (1) How can the Bank best market its securities in the United States—in other words, what distribution methods and facilities are available to it; and (2) who may be expected to buy the direct or guaranteed bonds of the International Bank, or among what groups of investors is it likely to find its most receptive customers? The answers to these questions are all-important for the successful functioning of the Bank in view of its almost complete dependence upon the private capital markets for its funds. This dependence derives from the division of its subscribed capital, only 20% of which will at any time be available for loans, so that for at least 80% of its loans, the Bank will have to raise funds in the capital markets of its members. This in turn means that for the foreseeable future the Bank will call upon private investors principally in the United States, and to a much lesser extent in Canada and a few other creditor countries, to finance substantially all of the reconstruction and development projects which it approves.

This discussion will proceed upon several gratuitous, but seemingly quite reasonable, assumptions as to the motives which will impel the Bank's directors in marketing the bonds. For example it assumes (1) that the directors will wish to effect as wide a distribution of the bonds as possible and among all classes and sizes of investors; (2) that, therefore, they will not wish to select the distribution facilities of any particular segment of the investment industry but will employ in their offerings those methods most conducive to the public interest and that of investors in general; (3) that every effort will be made to avoid the possibility of undue

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*The views expressed in this article are those of the author and do not necessarily reflect official opinion of the Securities and Exchange Commission or other government agency.

A. M. Kidder & Co. Will Admit Penick

A. M. Kidder & Co., 1 Wall Street, New York City, members of the New York Stock Exchange and other leading Exchanges, will admit John D. Penick to partnership on April 1.

The Exchange membership of Amos M. Kidder will be transferred to Milton E. Lawrence, who will continue as a partner in the firm.

Echoes of the Savannah Meeting

By HERBERT M. BRATTER

Ambassador Caceres From Honduras Sees a Tremendous Job Ahead for World Fund and Bank. Hugues Le Gallais, Luxembourg Minister to Washington, Sees Possibility of American Investment in His Country's Industry. Peruvian Governor of Bank Speaks of Plan to Adjust Debt Issued in United States. Reaction of Foreign Officials to Salaries Established.

SAVANNAH, GA.—The following statement to the "Chronicle" from Julian R. Caceres, who is Honduran Ambassador in Washington and his country's Governor on the Fund and Bank, illustrates the importance which Latin Americans attach to the words "Reconstruction" and "Development" in the International Bank for Reconstruction and Development:

Herbert M. Bratter

Statement of Governor Julian R. Caceres, of Honduras

"The Republic of Honduras, inspired by the principle of international cooperation, signed unreservedly on July 22, 1944, the Bretton Woods Agreement concerning the International Monetary Fund and the International Bank for Reconstruction and Development, and on Dec. 27, 1945, she deposited in the State Department the instruments of ratification of these Agreements.

"The stabilization of international currencies, which is one of the most important aims of the Fund, is not only a means for the exchange of products but is also intended to encourage peace and work all over the world. To reconstruct the devastated areas ravaged by the last war in Europe and in Asia and to develop the progress of other allied countries, like the American republics, constitutes one of the loftiest duties of the Governments, which, with their respective peoples, won the war against the Totalitarian Powers.

International cooperation means, in this particular instance, a common undertaking and a global economic contribution of all the allied nations to revitalize the countries isolated by war and it also means to put in motion the enormous potentialities possessed by countries, which, like those of Latin America, offer to the welfare of mankind.

"The International Fund and Bank will confront a tremendous job in Europe and in Asia, but, also, these institutions will have a lot of work to do in the Latin American countries. It seems to me that reconstruction in Europe is the term of an economic equation which, in a global sense, will be complemented by the development looked for by the nations of the American continent.

"International trade, and consequently international economy, are closely related to the exploitation of the natural resources of the New World. Likewise the reconstruction of other countries is ad-

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Statistical Miasma and Administrative Blunders

By A. M. SAKOLSKI

Calling Attention to the Recent Repudiated Statistical Estimate Made Through the Commerce Department Regarding the Auto Industry's Ability to Pay Increased Wages, Dr. Sakolski Points Out the Defects and Difficulties in Statistical Research Along These Lines. He Refers in Particular to the Various Studies of Growth of Capital and National Income as Illustrations of Attempts to Ascertain That Which Cannot Be Computed Statistically and Cautions Against Using Such Material as Guides to Administrative Policy.

Within recent weeks there has come to light a sort of political scandal arising from the repudiation of an official report purporting to show from reliable data that automobile manufacturers would be able to increase wages 24% without the need of higher prices for their products. This report, highly publicized, was used by the President's "unofficial" fact-finding board in arriving at its decision recommending a 19½¢ per hour increase for General Motors' employees. But, despite the protests of manufacturers, who questioned the accuracy and authenticity of the data, and despite the demands for the verification and sources of the figures, it was not until after the workers and General Motors agreed upon a wage settlement, that Secretary Wallace in effect retracted the report, and made a statement admitting the "inherent uncertainties in projecting cost, price and profit relationships for any specific industry and even for industry as a whole," adding that "Such projections are obviously dependent on assumptions as to future costs, ceiling prices and specific methods of projection." This is equivalent to saying that such figures are mere guesswork. They "were not intended," Mr. Wallace stated, "nor should they have been recorded as official forecasts of costs, prices or profits for the automobile industry or for industry as a whole."

A. M. Sakolski

This fiasco and statistical hoax is, in my opinion, only a forerunner of many others that will happen in the future unless government officials, economists, statisticians and others (who rely on the same sort of compilations for arriving at their views and shaping their policies), exercise more restraint and greater caution in their use. Indeed, there is a question whether, in many cases, statistical exercises of this nature, even though scientifically and conscientiously prepared, are much better than mere scientific guesses.

Capital Growth and Income

Thus, considerable statistical work has been done in the last decade regarding the sources, character and rate of growth of

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The Outlook for Mortgage Lending

By RAYMOND RODGERS*

Professor of Banking, New York University

Professor Rodgers, Pointing Out That Mortgage Lending Has Been Affected by Low Interest Rates and Price Level Changes, Holds Outlook for Higher Interest Is Dubious Because of Plethora of Investment Capital, Government Fiscal Policy, and Forces Increasing Bank Deposits. Says Effect Has Been Not Only to Lower Mortgage Interest Rates, but Also to Increase Real Estate Valuations. Contends Many Mortgage Lenders Have Contributed to Inflationary Valuations by Not Exercising Caution and Restraint. Sees Housing Shortage Due to Swollen Incomes and Looks for Continued Shortage for Two or Three Years, Followed by Reduction in Real Estate Values, Particularly of Old Homes and Small Business Properties.

Mortgage lenders have always had the problem of operating between the Scylla of interest and the Charybids of appraisal. Fundamentally, sound mortgage lending administration resolves itself into proper policies and management with respect to these factors of rate of interest and soundness of appraisal. Never have these problems been more pressing nor the solutions more elusive than at present.

Raymond Rodgers

Interest rates have dropped so low that in the Congressional halls representatives of the people glibly talk about the issuance of non-interest-bearing Government "bonds" to the commercial banks! All sections of the money market and all branches of the capital market have felt the tremendous impact of the serious decline in the rate of interest.

Mortgage rates have been no exception to this general decline in interest. In this field, too, rates have dropped sharply giving a much smaller margin for the servicing of the loans and for the

*An address by Prof. Rodgers before annual meeting of the Federal Home Loan Bank of Cincin-

(Continued on page 1667)

The Postwar Boom In Capital Goods Industries

By A. W. ZELOMEK*

Economist, International Statistical Bureau and Fairchild Publications

Business Economist Predicts That Activity in Capital Goods Industries Will Until 1950 Average 100% to 200% Above Prewar. This Will Actually Be Furthered if International Tensions Continue, Because of Their Stimulation of Defense Expenditures. Mr. Zelomek Forecasts a Very High Level of Non-Residential Building for at Least 5 Years. He Anticipates More Favorable Psychological Attitudes by Businessmen, Which Will Remove Restraints on Private Investment.

Importance of Capital Goods Industries

It is generally agreed that the capital goods industries are vitally important in the American economy. In fact, business men are sometimes shocked when they find that private capital formation is no greater than it has been in the past. Why, then, is it so important? That question is answered when we note the wide fluctuations in capital investment during periods of depression as compared with those of prosperity. The industries act as a strategic and accurate barometer of business health.

A. W. Zelomek

Private gross capital formation in 1932 was only $2.2 billion. Main items in this were expenditures for plant and equipment; net change in inventory; and net balance of foreign trade. In 1929 it had been $17.6 billion. That great difference marks the distinction between prosperity and depression. Investment activity, in short, can be regarded as a plain indicator of good or bad business conditions. It is rather pointless to argue whether good business will automatically stimulate investment, or whether a high level of investment will automatically produce good business. The fact remains that the two are associated physically and connected psychologically.

This last point has considerable significance. In 1937, the prewar year of peak recovery from the

*A speech by Mr. Zelomek before the Purchasing Agents Association of Eastern New York, Albany, March 21, 1946.

(Continued on page 1661)

The Near East Oil Dispute

A cooperative rather than a purely political and legalistic approach to the tangled oil dispute in the Near and Middle East is urgent if a sane solution of the problem is to be reached, Dr. Frederick Haussmann, formerly technical adviser to the Government of Venezuela and international expert on oil, declared on March 23.

Frederick Haussmann

Addressing a Round Table held at the New School for Social Research on "The Anglo-American Oil Agreement and the New Situation in the Near East," attended by representatives of oil companies and students, Dr. Haussmann asserted that the Iranian dispute is threatening the working of the UNO. It is regrettable, he added, that the Anglo-American oil agreement is not yet ratified, for its elastic organization would offer a neutral basis for discussion with Russia and other parties to the dispute.

"It is time to rescue truth from rumor," he continued, "to piece together the established facts without prejudice and propaganda and to arrive at a sane judgment of the rights and wrongs of the different national positions. The reference made by Russia to the treaty of 1921 with Iran, though it cannot justify any prolonged military occupation, demonstrates that the whole Near East oil problem needs a thorough reconsideration."

Dr. Haussmann cited figures to show that the new Middle East oil discoveries have brought the reserves in this region to 26.8 billion barrels, while the United States oil reserves are estimated at 21.5, and Venezuelan reserves at 5.6. The Russian reserve estimate of 5.7 billion barrels is generally regarded as far too low, Dr. Haussmann stated.

Calling for a marketing understanding with respect to Eastern and Western Europe, Dr. Haussmann pointed out that Russia would thus receive bitterly needed drilling and refining equipment from American firms to increase her domestic oil industries and the oil supply for her industrial development.

Investigate Before You Invest In Hotel Securities

By ARTHUR S. KLEEMAN

President, Colonial Trust Co., New York City

Bankers Warns Investors That the Present Prosperity in the Hotel Industry Is Based on the General Wartime Boom. Mr. Kleeman Points Out That the Present Inflated Volume Will Be Required to Support Higher Costs, and the Equity Behind Current Earnings Is Very Thin. He Recalls the Financial Collapse Following the First World War, Occasioned by Previous Over-Building and Unsound Financing.

The present crowded condition of the nation's hotels, particularly in larger cities, prompts some casual observers, as well as professional prognosticators, to proclaim that the country needs a boom in hotel building.

Arthur S. Kleeman

Unquestionably, some cities do need new hotels, but investment bankers, individual investors, or communities, before expending their money, should get the full facts.

Many of us who have had long experience in the banking business have heard such stories before. Hotels were crowded during World War I. It appeared then, as it appears now, that new hotels were a real necessity. At that time a boom was born, but not long afterwards the catastrophic results of overbuilding were written in bright red ink.

The record reveals that the $5 billion hotel industry now is operating at a fair profit for the first time since the '20s. 1944 sales of $1½ billions were more than 50% over 1929, the industry's best peacetime year, and on the face of it, it would appear that the future is bright. But the abovementioned unbridled boom in new hotel construction after World War I resulted in financial collapse. By 1935, 81% of the nation's hotels went into bankruptcy, foreclosure, and/or reorganization. The prime reason for this was that hotels were going up faster than improving business conditions could furnish the guests to occupy the over-supply of rooms.

The barometer of the hotel business is *occupancy*. Before the war operating costs were covered when occupancy reached 65% of capacity. Today the "break-even" point has risen to more than 80%.

(Continued on page 1645)

John P. Myles Rejoins Claybaugh in Syracuse

SYRACUSE, N. Y.—Lieutenant John P. Myles, AUS, has returned to Blair F. Claybaugh & Co., Loew Building, resuming his duties as sales manager.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

Prices slowly approaching new zone of decision. Present advance points to further intra-strength. But until averages pass certain obstacles future still doubtful.

The slow creepy advance of the past few days is meaningless so far as the main trend is concerned. It will continue meaningless until a few things happen. On the upside the familiar industrials will have to go through their old highs of 206.97 while the rail averages either stand still or also manage to move above the 68.23 figure established the early part of February.

If the above is seen the market is still in a bull trend, even if the news sounds ominous. Of course, the above figures mentioned are the ultimate. In practise it is not necessary to wait for such full confirmation. The fact that the industrials can show a desire to take stock across the 200 figure might be sufficient to point to a maintenance of a bull trend. But there must be a distinction between the desire and the ability to penetrate a previous mass. Right now the desire is present. But then a contra-swing of the pendulum is always present after it has moved in a wide arc in any opposite direction. It is what happens after it hits dead center that becomes significant.

* * *

The action of the rails is something else again. I think the majority of traders while

(Continued on page 1677)

Public Utility Securities

Reorganization Progress of the New England Utility Holding Companies

The three New England holding companies—N. E. Public Service, N. E. Power Association, and N. E. Gas & Electric—have all made marked progress in the past few weeks or months with their respective recapitalization and integration programs, under SEC supervision.

New England Public Service (NEPSCO) last October arranged with court approval to sell its industrial properties to a group headed by First Boston and Coffin & Burr for $16,000,000, a far better price than it could have realized in earlier years. This sale clears the way for a final distribution of cash and securities, after further details are cleared up.

The New England Power Association (NEPA) amended plan was recently approved by SEC. The plan provides for substitution of a single holding company for NEPA and its four sub-holding companies. The plan must now be approved by a Federal district court, and the SEC is expected shortly to apply for such an enforcement order. It is thought that while some of the sub-holding company security holders may continue to voice disapproval of the exchange terms accorded them, this will not involve protracted litigation, since minor adjustments could probably be effected if necessary without disturbing the main outlines of the plan.

The plan provides for a merger of all the holding companies with the parent company and the issuance of $85,000,000 bonds, and 6,695,075 shares of $20 par value common stock, the latter to be allocated (together with cash in some instances) to various public stockholders of New England Power and the sub-holding companies. Under the plan each share of NEPA preferred stock (with arrears) would be exchangeable for 5⅖ths shares of new common stock.

The company has estimated future earning-power within three years after consummation of the plan at $1.59 a share on the new common stock. Based on such estimated earnings it seems reasonable to expect that dividends on the new common might be paid at the rate of $1-$1.20, with the balance "plowed back" into the operating companies. Assuming a dividend rate of $1.10 and a 4¾% yield basis, the common stock might eventually be worth in the neighborhood of $23 a share. If these assumptions prove correct, the equity value for the present preferred (which advanced from around 87 to 100 after approval of the plan was announced) might work out at around 122.

New England Gas & Electric (NEGEA) has announced the main outlines of a new plan following a compromise settlement of litigation with the Associated Gas system (now General Public Utilities), which owns the second preferred and common stocks. Like other systems, NEGEA has greatly benefitted by the big advance in operating company stocks in recent years. Several years ago the company was greatly concerned over SEC efforts to enforce the theory that bonded debt should amount to only 50% of capital structure (or of net plant account). At that time such a readjustment would probably have left little or no value for the preferred stocks. Now, however, with a much more liberal appraisal of the portfolio value, the bonded debt can be sharply reduced without hurting junior stockholders. Approximately $35 million bonds will be retired with proceeds of $22.5 million new sinking fund collateral bonds and $11.5 million (sales value) new common stock, together with about $1,000,000 Treasury cash. The old preferred will get 84½% of the **remaining** common stock (the plan is flexible in this respect) with the balance going to General Public Utilities for its holdings of second preferred and common (and in settlement of litigation). The new financing probably won't come for at least several months, since it has to go through the SEC and a Federal Court.

It is difficult to make any accurate estimates of earnings on the new basis until a pro forma income statement becomes available. However, based on a rough estimate, common stock earnings on the 2,300,000 shares might work out as follows: Including the consolidated return tax credit (which would be reduced somewhat if the New Hampshire sub-

(Continued on page 1678)

Railroad Reorganization— The New Government Policy

By ELISHA M. FRIEDMAN

Economist Notes That the Pleas of Small Stockholders Are Now Being Heeded, the Senate Committee Having Revised Bill S. 1253 to Include Roads Now in Courts. Urges That These Roads Be Returned to Stockholders. He Declares That Railroad Reorganizations Need Not Be So Drastic, as Present Property Replacement Values Are Greatly Above Total Debt. He Recommends Establishment of a Joint Congressional Committee on Transportation; and Noting That No British Railroad Has Failed Since 1923, He Urges That Such Committee Visit England to Study Their Coordination and Consolidation.

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The Small Railroad Stockholder Has Finally Been Heard

Threatened with confiscation, the owners of shares in bankrupt railroads deluged their Representatives and Senators with pleas to pass the Hobbs Bill. Senators Wheeler and Reed stated at the recent hearings of the Interstate Commerce Committee that public opinion would undoubtedly force action to avert expropriation of the railroad stockholders, and that the Hobbs Bill could easily pass the Senate if the bill were allowed to come to the floor for debate.

Elisha M. Friedman

On the eve of apparently the greatest boom in American history, Commissioner Mahaffie of the ICC had drafted a bill, S. 1253, providing for **future** reorganization of railroads. But, amazingly, he utterly ignored the $2 billion of par value of common stock which is now in process of being destroyed in the midst of prosperity. Yet the ICC since 1920 had approved, for issue, 100% of the no-par value common stock and 38% of the $100 par stock which it is now declaring worthless.

Senator Wheeler took a bold step. It attests to his open-mindedness and his fundamental faith in the democratic process. He rewrote the Mahaffie bill. As he stated at the hearings repeatedly,

(Continued on page 1674)

Schram Scores Curb On Free Markets

In Annual Report of the New York Stock Exchange, He Points Out That Inflation Pressures Upon Stock Market Has Been Subject of Misinformed Discussion and That Remedy Lies Not in Curbs on Speculation but in End of Deficit Financing and Reduction of Bank Bond Holdings. Reports Increase in Stock Exchange Transactions and Income.

Emil Schram, President of the New York Stock Exchange, made public on March 15, the 1945 Annual Report, which, in addition to furnishing information regarding the volume of transactions on the Exchange, the condition of its finances and other similar data, contains a statement regarding inflation pressures and the policy of the Administration for curbing speculative stock transactions.

Emil Schram

"The impact of inflation pressures upon the stock market," Mr. Schram stated, "has been the subject of much uninformed discussion. There have even been suggestions that the advance in security prices was a primary cause of inflation. The most unfortunate effect of such suggestions has been to confuse people as to the real underlying causes and, possibly, to postpone the application of realistic remedies. It may be remarked, in passing, that the market would have been insensitive indeed if it had failed to reflect the inflationary dangers that exist.

"Solutions for the problems of inflation are to be found, not in interference with free markets, but in intelligent measures to release our great productive capacities, in an early end of deficit financing through a balanced budget, and in a sound national debt policy.

"Mr. Marriner S. Eccles, Chairman of the Board of Governors of the Federal Reserve System, only recently pointed out that 'the primary source of the inflation danger which overhangs the domestic economy on all fronts is the vast accumulation of currency and bank deposits at the disposal of the public' and that 'so long as the public debt continues to be monetized through the purchase of Government securities by the banking system the supply of money will continue to increase, thus tending further to reduce the interest rate on savings and investment funds.'

"Mr. Eccles is correct, of course, in that increasing government debt has been not only the chief factor in the growth of deposits, currency and government securities, but also the chief factor in the present easy money conditions. The time has come, it seems to me, for a comprehensive examination of our national debt policy, including the distribution of the debt by classes of holders and maturities; and for an objective study of the question whether, and to what extent, unprecedentedly low interest rates now prevailing are desirable from the viewpoint of the public interest.

"The main problem is to reduce the holdings of the commercial banks and to increase the proportion of the Federal debt in the hands of individuals and other non-bank investors, such as insurance companies and mutual sav-

(Continued on page 1665)

Investment Education And Publicity

By HAROLD JOHNSON

Vice-President National Association of Securities Administrators
Assistant Director and Counsel, Bureau of Securities,
State of Nebraska

Official of National Association of Securities Administrators Calls Attention to Present Conditions Which Require Immediate Action to Protect Investment Public From Stock Swindlers. Urges That More Reliance Be Placed on Prevention Before Public Incurs Losses Than on Punishment After the Act, and Outlines an Educational Program to Be Given Wide Publicity. Describes Methods of Stock Swindlers and Draws Attention to Canadian Mining Boom and the Steps Being Taken to Prevent Wild Speculation in Mining Shares. Cites Action by Nebraska Bureau of Securities.

Now, in the year 1946, there are more people in the United States with money to invest than there have ever been before. Incidentally, there is a larger percentage of this investing public which knows little or nothing about investment than has been the case before. The market for tangible goods is restricted and uncertain. The very human urge to make a little money "run into a lot quick" is present as always.

Harold Johnson

These conditions all add up to something resembling a swindler's paradise, especially a phony-stock salesman's paradise. Here are inexperienced people with a little money believing in the great industrial America of which they have heard so much. They hear everywhere of the changes in our way of life which are to come about on account of the great scientific discoveries of the war period. They hear of real development of areas hitherto inaccessible; of the finding of new supplies of metals and of new strikes of oil. They are ready to be convinced of the financial profits to be made in backing new inventions or in opening up new land for the production of gold or ura-

(Continued on page 1671)

Dealer-Broker Investment Recommendations and Literature

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

Auto Truck Industry—memo on situation indicating record volume and profits—Eisele & King, Libaire, Stout & Co., 50 Broadway, New York 4, N. Y.

Bank Stocks—special study of the Bank Stock situation and the outlook—Lewisohn & Co., 61 Broadway, New York 6, N. Y.

Bond Switch—detailed circular recommending exchange of "Second Grade" rail bonds for Missouri Pacific 1st and Refunding 5s—Bendix, Luitweiler & Co., 52 Wall Street, New York 5, N. Y.

Building Stocks—study of outlook for these securities, indicating that earnings should run 75% above the 1936-1939 average—E. F. Hutton & Company, 61 Broadway, New York 6, N. Y.

Canadian Stocks—Current Review showing earnings, price range, dividends and yields of 115 Canadian issues — Charles King & Co., 61 Broadway, New York 6, N. Y.

Geared to the News—brochure of comment and review containing brief analyses of **Philip Carey Manufacturing Co.; Sargent & Co.; The Upson Company; Lawrence Portland Cement Co.; The Parker Appliance Co.; Pettibone Mulliken Corp.; Armstrong Rubber Co.; Ohio Leather Co.; American Furniture Co.; Punta Alegre Sugar Corp.; Haytian Corporation of America; Latrobe Electric Steel Co.; Ray-O-Vac Company; Fort Pitt Bridge Works** and **Welch Grape Juice Co.**—Strauss Bros., 32 Broadway, New York 4, N. Y.

Ideas for Dealers—current issue of monthly brochure containing details on **Anglo California National Bank, Creameries of America, Hunt Foods, and Pacific Western Oil Corporation**—Kaiser & Co., Russ Building, San Francisco 4, Calif.

January Railroad Review—summary of situation—Vilas & Hickey, 49 Wall Street, New York 5, N. Y.

Philippine Mining Stocks—memorandum for dealers only giving late details on **Benguet Consolidated Mines, Balatoc Mining Co., Big Wedge,** and **Mindanao Mother Lode**—John J. O'Kane, Jr., & Co., 42 Broadway, New York 4, N. Y.

Railroad Liquid Resources and Debt Retirement — analytical memorandum—H. Hentz & Co., 60 Beaver Street, New York 4, N. Y.

Also available is a **Review of Electric Power & Light Corporation**, and a leaflet indicating current trends in the **Petroleum, Cement,** and **Motion Picture** industries.

Real Estate Equity Stocks—Analyses of situations considered especially attractive at this time, including **Brunswick Site Co.; Commodore Hotel; Hotel Lexington, Inc.; Hotel Waldorf Astoria Corp.; Hotels Statler Co.; N. Y. Hotel Statler Co.; Roosevelt Hotel NY; Savoy Plaza;** and **870 Seventh Ave. Corp.**—Ask for list C21—Amott, Baker & Co., Inc., 150 Broadway, New York 7, N. Y.

American Forging and Socket—Circular—De Young, Larson & Tornga, Grand Rapids National Bank Building, Grand Rapids 2, Mich.

American Phenolic Corporation—Analysis—J. F. Reilly & Co., Incorporated, 40 Exchange Place, New York 5, N. Y.

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.**

Bird & Son—Memorandum—Buckley Bros., 1529 Walnut Street, Philadelphia 2, Pa. Also available are memoranda on **Reda Pump Co.** and **Western Light & Telephone.**

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

Also available is a circular on **Sports Products Inc.**

Chicago, North Shore & Milwaukee Railroad Co.—situation discussed—Brailsford & Co., 208 South La Salle Street, Chicago 4, Ill.

Chicago South Shore & South Bend RR. — Revised bulletin — Doyle, O'Connor & Co., Inc., 135 South La Salle Street, Chicago 3, Ill.

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; Mohawk Rubber.**

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

C. H. Dutton—Analysis—Moreland & Co., Penobscot Building, Detroit 26, Mich.—Also available is a study of **L. A. Darling.**

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

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

Empire District Electric Co.—memo in the current issue of **The Preferred Stock Guide**—G. A. Saxton & Co., Inc., 70 Pine Street, New York 5, N. Y.

Also available is a circular on the **New England Power Association.**

Fresnillo Company — corrected memorandum on earnings and dividend—Troster, Currie & Summers, 74 Trinity Place, New York 4, N. Y.

Galvin Co.—Descriptive Circular—Seligman, Lubetkin & Co., 41 Broad Street, New York 4, N. Y.

Also detailed circulars on **Upson Co.; Tennessee Products; Wellman Engineering Co.; Kendall Co.**

Home Insurance Company of New York—summary for 1945—Butler-Huff & Co. of California, 210 West Seventh Street, Los Angeles 14, Calif.

Also available are a tabulation of 1945 insurance company results and **Highlights of the Bank of America** based upon the Dec. 31, 1945, statement.

International Detrola — Memorandum—Cruttenden & Co., 209 South La Salle Street, Chicago 4, Ill.

Kinney-Coastal Oil Company—late data and annual report available—B. E. Simpson & Company, California Building, Denver 2, Colo.

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.**

Lipe-Rollway Corporation—Circular—Herrick, Waddell & Co., Inc., 55 Liberty Street, New York 5, N. Y.

Magor Car Corporation—circular descriptive of the common stock of interesting railway equipment issue—Blair F. Claybaugh & Co., 72 Wall Street, New York 5, N. Y.

May Department Stores—analysis showing estimated earnings for 1946 at $7 a share, as against about $2.50 estimated earnings for 1945—Herzfeld & Stern, 30 Broad Street, New York 4, N. Y.

McDonnell Aircraft Corp. — Memorandum — F. H. Koller & Co., Inc., 111 Broadway, New York 6, N. Y.

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—circular on Galvin Manufacturing Co., makers of the Motorola Radios and Phonographs—Seligman, Lubetkin & Co., 41 Broad Street, New York 4, N. Y.

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

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

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

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

Richardson Company — circular on interesting growth opportunity in the plastics industry—Amott, Baker & Co., 150 Broadway, New York 7, 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.

Soya Corporation—late memorandum—Peter Morgan & Co., 31 Nassau Street, New York 5, N. Y.

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

Thiokol—Descriptive booklet on manufacturer of synthetic rubber, plasticizers and chemicals—Amos Treat & Co., 40 Wall Street, New York 5, N. Y.

Waltham Watch Co.—Descriptive circular—du Pont, Homsey Co., 31 Milk Street, Boston 9, Mass.

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

Mid-South Securs. Co. Formed in Nashville

NASHVILLE, TENN. — Mid-South Securities Co. is being formed with offices in the American Trust Building, to engage in the investment business. Officers of the new organization are Bert F. Madden, President; F. Lee Nelson, Vice President and Secretary; Matthew B. Pilcher, Vice-President and Treasurer; V. M. Choate and Robert H. Jordan, Vice-Presidents; Porter L. Easton, Assistant Vice-President, and Rudolph Lauper, Assistant Secretary and Assistant Treasurer. All are formerly of R. A. Shillinglaw & Co., Mr. Jordan being in charge of the Memphis office.

Bailey & Rhodes Form New Investment Firm

LOS ANGELES, CALIF.—Warren B. Bailey and Foster B. Rhodes have formed Bailey and Rhodes with offices at 210 West Seventh Street to engage in the investment business. Mr. Bailey in the past was an officer of R. N. Gregory & Co. Mr. Rhodes was manager of the investment department of the First Trust & Savings Bank of Pasadena; recently he has been on active duty with the U. S. Naval Reserve.

Courts in New Location in Charleston, S. C.

CHARLESTON, S. C.—As of April 1st the Charleston, S. C., office of Courts & Co. will be located on the ground floor of the Peoples Bank Building, 18 Broad Street under the co-managership of E. Prioleau Ravenel, Jr. and Robert F. McNab. W. E. Martin, H. L. Matthews and Demal Cochran will be associated with the firm at that office.

Campbell, Carmichael in Charleston, W. Va.

CHARLESTON, W. VA.—John H. Campbell, Jr. and Asa B. Carmichael, Jr., are forming Campbell, Carmichael & Co. with offices in the Union Building to engage in the securities business. Mr. Carmichael was formerly with Kirchofer & Arnold, Inc. and prior thereto with the New York office of Scott, Horner & Mason, Inc. Mr. Campbell was formerly Shelby, N. C. representative for Kirchofer & Arnold, Inc.

Business Outlook and Trends

By BENJ. H. GORDON*

Regional Business Consultant, U. S. Dept. of Commerce

Commerce Department Spokesman, After Reviewing Reconversion Progress, States the Reasons for His Belief That the Business Outlook for 1946 and 1947 Are Excellent. Sees Immediate Heavy Shortages of Goods and Homes and a Pent-Up Purchasing Power as Assuring Full Employment, but Cautions That When These Factors Disappear, in Order to Prevent Deflation, There Will Be Need of Continuous Technological Improvements to Lower Costs and Keep Up Demand. Looks for Largely Expanded Foreign Trade, and Decries Inability of Other Countries to Pay for Our Exports. Points Out Vital Role of Commerce Department in Shaping Prosperity.

Benj. H. Gordon

We are in the midst of a significant period in our economic history with strong inflationary and deflationary forces at work. This course is the result of the prodigious production effort we exerted in winning the war. It is to be expected after four fears of forced draft war production running at the rate of 90 billion dollars a year at its peak, a figure higher than our normal total production in peacetime, that serious readjustment problems would develop. The wonder is that the change-over took place as rapidly and as smoothly as it did. For we must not overlook the fact that we suddenly cut our annual war production rate from 90 billion to 25 billion immediately after V-J Day. Indeed we have, with the exception of the industrial areas that concentrated on aircraft, shipbuilding and ordnance, already reconverted or converted all but about 10% of our production facilities, and by fall reconversion will be practically complete, despite the slowdown due to the rash of labor-management disputes that developed during the past few months.

In New York State our record is particularly good, showing a loss of only about 8% in manufacturing employment during the period from V-J Day to the first of the year, while the loss for the nation as a whole was about 14%.

Over 52 million workers are at present employed, a number in excess of any peacetime period, and our unemployment of about two and one-quarter million is less than one-third of what was originally anticipated by many economists this spring. It should be noted here that normally we have about two million frictionally unemployed, that is, workers changing jobs and the like.

To be sure, reconversion and full employment have been set

*An address by Mr. Gordon before the Rotary Club of New York City, March 7, 1946.

(Continued on page 1651)

NSTA Notes

NATIONAL SECURITY TRADERS ASSOCIATION

Paul I. Moreland, Moreland & Co., Detroit, Mich., Chairman of the Educational Committee of the National Association of Security Traders, has addressed the following communication to all members of the Association:

"At the request of the Officers and Executive Council, and with the approval of the National Committeemen of the National Security Traders Association, Inc., we are addressing you this important communication.

"You are a vital factor in the economic stability of our nation. Your superior knowledge in connection with financial matters in general and investment media in particular, places you in a position to exert a powerful influence toward the use of our public savings. Because of our position, we have a very definite obligation and responsibility to aid in all ways possible to safeguard the wartime savings now in the hands of the general public.

"As of Dec. 31, 1945, approximately $64 billions in Federal securities, $54 billions in savings accounts, and $63 billions in currency and checking accounts were credited to 85,000,000 individuals in the United States. These $181 billions present a constant target for high-pressure promoters, chiselers and frauds. This buying power, if protected and preserved, can assure the stability of business and promote prosperity for many years to come. IT MUST BE PROTECTED AND PRESERVED TO THE ULTIMATE BENEFIT OF ALL OF US.

"As experts in security analysis, it becomes our obligation and duty to weigh carefully the risk factor in relation to the position of the individual investor in all security transactions. Adequate insurance and sufficient reserves in cash and Savings Bonds should be an absolute prerequisite to acceptance of an order to purchase common stocks. A commission or trading profit made today is a detriment to our profession if it offers the risk of destroying the financial soundness of the client tomorrow.

"We believe, fully, that savings are of greatest value to our national economy when invested in legitimate and sound productive enterprise. Our savings are of such magnitude that there are today adequate funds available to finance all such enterprises without resorting to the cashing of Savings, War, or Victory Bonds. We will have sufficient opportunity to apply our talents to the intelligent investment of excess current incomes and uninvested surpluses without being a party to the cashing of bonds.

"For the future of our business and the high standing of our Association, ask yourself this question: IS THE PRICE OF THE SECURITY JUSTIFIED BY THE INDUSTRY, THE PAST, PRESENT AND FUTURE EARNINGS AND DIVIDENDS, AND CAN THE SPECIFIC CLIENT BEAR THE RISK?

"Members of our Association, from knowledge and experience, are better qualified to supply the answer than are the dozens of amateur, would-be advisors. It is our obligation as skilled members of an honorable profession to do so honestly, impartially and persistently."

Conrad Nongard With Cruttenden & Company

CHICAGO, ILL. — Conrad P. Nongard has become associated with Cruttenden & Co., 209 South La Salle Street, members of the New York and Chicago Stock Exchanges. Mr. Nongard was formerly an officer of Bennett, Spanier & Co. and A. A. Bennett & Co.

Donald J. Klein, who has recently been serving in the U. S. Army, has also been added to the firm's staff.

Illinois Personnels

(Special to THE FINANCIAL CHRONICLE)

BLOOMINGTON, ILL.—**Michael K. Garst** has become affiliated with **L. B. Jackson & Co., Inc.**, Livingston Building. He has been serving in the U. S. Navy.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — **John W. Allyn** has rejoined the staff of **A. C. Allyn & Co., Inc.**, after serving in the armed forces.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — **Robert G. Frank** has become connected with **Brailsford & Co.**, 208 South La Salle Street. He has recently been serving in the U. S. Army.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—**Anthony B. Hurtgen** is with **Enyart, Van Camp & Co., Inc.**, 100 West Monroe Street. He was formerly with Brailsford & Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — **Harlow N. Higinbotham** has rejoined **Hulburd, Warren & Chandler**, 208 South La Salle Street. He has recently been with the War Shipping Administration.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—**Chas. Siebenmann** is with **Slayton & Co., Inc.**, 135 South La Salle Street.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — **Lloyd H. Strausz** has rejoined **M. B. Vick & Co.**, 120 South La Salle Street, after serving in the U. S. Army.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — **Fredric B. Welch** is with **F. S. Yantis & Co.**, 135 South La Salle Street. He was formerly in the U. S. Army.

(Special to THE FINANCIAL CHRONICLE)

ROCKFORD, ILL. — **Merle J. Barrows** has joined the staff of **S. A. Sandeen & Co.**, Talcott Building.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—**Herman D. Brown**, formerly with First Securities Company of Chicago and Ryan, Nichols & Co., has become associated with **Paul H. Davis & Co.**, 10 South La Salle Street.

CHICAGO, ILL.—**John E. Watson** has become connected with **John A. Dawson**, 1 North La Salle Street. He was previously with the Central Republic Company.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—**Charles E. Lundfelt, John W. Stewart** and **Robert K. Wallace** are with **C. J. Devine & Co., Inc.**, 135 South La Salle Street. Mr. Stewart is rejoining the firm after serving in the U. S. Navy. Mr. Wallace has also been in the Navy; prior thereto he was with Harris, Hall & Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL — **Richard J. Leonard** has been added to the staff of **Harriman Ripley & Co., Inc.**, 135 South La Salle Street, after serving in the U. S. Navy.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — **Carl Frank Brown, Jr.** is with **D. B. Peck & Co.**, 111 West Monroe Street.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — **Herman W. Brann** is with **Zippin & Company, Inc.**, 208 South La Salle Street, after serving in the armed forces.

Henry Thielbar Joins Naess and Cummings

Henry B. Thielbar, having been released from active duty with the U. S. Naval Reserve, is now associated with Naess & Cummings, investment counselors of New York, Boston and Baltimore.

Mr. Thielbar before the war had for some years been engaged in the investment advisory field with Alex. Brown & Sons in Baltimore and as manager of the Trust Department of Sutherland, Tuttle & Brennan in Atlanta.

Estes, Snyder & Co. Now Is a Corporation

TOPEKA, KANS.—Estes, Snyder & Co., National Bank of Topeka Building, is now doing business as a corporation. Officers are Wayne J. Estes, President; Jack B. Snyder, Vice-President and Treasurer; William B. Pesell, Vice-President; Bernice McGregor, Secretary; and Robert C. Guthrie, Assistant Secretary.

Real Estate Securities

HOTELS

It was in December, 1942, that we first recommended the purchase of Hotel Bonds in this column. Prices of the bonds recommended have continued to rise. Lately, however, the demand for this type of security has resulted in prices that have exceeded any expectation of ours.

The following comparison of prices during December, 1942, and at present is quite remarkable:

Hotel	1942	Current
*Governor Clinton	23	91
*Hotel Lexington	52	114
*Park Central	24	118
St. George	42	86
*Savoy Plaza	9	106
*Sherry Netherland	10	88
Waldorf Astoria	4½	79¾

*Carries stock representing equity.

We investigated the current buying of these securities and found that the buyers had evoked a new theory for their purchases. It is, namely, to ascertain the original cost of the hotel and if the bonds can be purchased at a price which discounts this cost, the purchase is made.

The theory is that existing hotels are in an extremely advantageous position to withstand any competition from new hotels because of higher construction costs.

Favorable economic factors of existing hotels are a prospect of refunding outstanding hotel bonds at a lower interest rate due to cheap money, high earnings and present reduction of debt by reorganization or sinking fund operation. Refunding of debt at low interest rates will provide additional funds for amortization and increase value of stock representing the equity.

Unfavorable economic factors are as follows: With current occupancy at its peak, the probabilities of increasing revenue of hotels are nil, while operating costs continue to rise. Post-war operating costs are rising because of the necessity of giving more adequate services to guests, expenditures for advertising and business promotion and large sums required to be spent to rehabilitate run down properties and to make up deferred repairs resulting from war-time conditions. Labor costs and cost of materials have also risen.

Current high earnings are because of capacity occupancy against normal occupancy of about 60%. As housing conditions becomes better, hotels will gradually be faced with a decrease in occupancy.

General Instrum't Corp. Common Stock Offered

Public offering of 79,590 shares of ($1 par) common stock of General Instrument Corp. was made March 25 by a syndicate headed by Burr & Co., Inc., and including Hirsch & Stroud & Co., Inc.; Otis & Co. and Butcher & Sherrerd. The shares, which are being sold for the account of certain stockholders and therefore do not represent new financing, were priced at $19 each.

Outstanding common of the Corporation on Oct. 31, 1945, was 486,858 shares. The company's only other securities are two 2½% serial notes of $625,000 each, issued in connection with the purchase of the F. W. Sickles Co. of Chicopee, Mass., now operated as a wholly-owned subsidiary.

Charles R. Gay Dead

Charles R. Gay, former President of the New York Stock Exchange, died at the age of seventy, after being in ill health for two years. Mr. Gay, in spite of his ill health had insisted on carrying on his manifold activities in religious, education and welfare work.

Charles R. Gay

He had been a member of the N. Y. Stock Exchange since 1911; he was elected President in 1935 serving for three terms and retiring in May 1938. Mr. Gay later became head of the firm of Winthrop, Whitehouse & Co.

Pike Resigns as SEC Commissioner

The resignation of Sumner T. Pike of Maine as a Commissioner of the Securities and Exchange Commission, tendered to President Truman in a four-line letter, was announced on March 21. In his letter Mr. Pike, it is stated, told the President:

"I am getting stale on this job, and it is time for me to quit."

According to Washington advices to the New York "Times" the President accepted the resignation, but refused to "accept the thesis which you put forward with such Yankee terseness."

The "Times" continued:

"On the contrary, Mr. Truman said that he could not believe that Mr. Pike was 'getting stale.' The Chief Executive felt that the 'public will be the loser' in Mr. Pike's decision to retire after six years' service.

"Mr. Pike, a successful financier, started as a clerk in a public utility corporation soon after he was graduated in 1913 from Bowdoin College, of which he is now an Overseer."

Mr. Pike, it is stated, was born 54 years ago in Lubec, Me., where he keeps his residence.

No Free London Exchange Dealings

By PAUL EINZIG

British Observer Points Out That Even Should the Terms of the Anglo-British Financial Agreement Be Carried Out, There Will Still Be a Restricted Exchange Market as Compared With Prewar Years. Foresees Breakup of Speculation and Private Dealings in Foreign Exchange, With Government Fixing the Rates and Requiring All Private Exchange Balances to Be Turned Over to Banks.

LONDON, ENG.—The Exchange Control Bill, foreshadowed by the Chancellor of the Exchequer in the course of his speech during the debate on the Washington Loan Agreement in December, is likely to be delayed for some months, and may not be introduced at all this session. Owing to the delay in the ratification of the loan by Congress, its adoption is not considered urgent. Meanwhile, banking circles are kept guessing about the scope of the Bill. All that is known for certain is that it aims at adapting the existing exchange restrictions to the requirements of the Bretton Woods and Washington Agreements and to the changed conditions in general. Even the Treasury has not yet made up its mind about some of its details.

Paul Einzig

One thing seems certain. The Exchange Control Bill will not provide for the restoration of free dealings in foreign exchanges in London, in the prewar sense of the term. Under the Bretton Woods Agreement it is the right and even the duty of the British Government to maintain restrictions on unauthorized international capital transfers. It is only for the purpose of current commercial payments and for the transfer of foreign balances that sterling must be made freely convertible within 12 months after the ratification of the loan.

But even for the above purposes, free convertibility does not mean free dealing. There is nothing in the Bretton Woods or Washington Agreements that would prevent the British Government from maintaining the existing methods of dealing, under which exchanges are bought and sold at fixed buying and selling rates. Under the new Bill those wanting to buy sterling for current commercial requirements or for the transfer of foreign balances will no longer have to apply for permit. Their bankers will sell them the amounts required. As before, exporters will have to

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Southern Pacific RR. Sells $25,000,000 Bonds To Kuhn, Loeb & Co.—Issue Reoffered at 98¾

An underwriting syndicate headed by Kuhn, Loeb & Co., was the successful bidder March 25 for a new issue of $25,000,000 Southern Pacific RR. first mortgage, Series G bonds, due Jan. 1, 1961, receiving the award on a bid of 98.319% for a 2¼% coupon. The bonds were immediately reoffered to the public at a price of 98¾ and accrued interest, subject to approval of the Interstate Commerce Commission. The sale attracted only one other syndicate bid. Halsey, Stuart & Co., Inc., and associates offered 98.309 for the same interest rate.

Proceeds from the sale of the new Series G bonds will be applied toward the redemption on or about June 13 next, at 101⅝, of $25,000,000 Series A 2⅞% bonds due Jan. 1, 1961.

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

Consolidated net income of the Southern Pacific Transportation System for the year ended Dec. 31, 1945, amounted to $32,981,000, compared with $36,719,660 in 1944. Outstanding debt of the System, including bank loans and equipment obligations, on Feb. 28, 1946, amounted to $520,227,286. Interest charges for the year 1946 are estimated at $20,114,000, which, based on the 1945 income, would be earned 2.9 times.

Philip Dumbrille Is With Spencer Trask

Spencer Trask and Company 25 Broad Stret, New York City, members of the New York Stock Exchange, announce the association with their firm of Philip N. Dumbrille, of New York, Greenwich, Conn., and Brockville, Ontario. Mr. Dumbrille was educated at the University of Virginia and, before the war, was in the security business for several years, being last associated with Fellows Davis and Company. During the war he served as a captain with the United States Marine Corps. Mr. Dumbrille is a member of the Metropolitan, Union League, Metropolitan Opera and Canadian Clubs.

Ingraham Admit De Socio

Samuel T. De Socio has been admitted to partnership in L. H. Ingraham & Co., 72 Wall Street, New York City. Mr. De Socio has been associated with the firm for many years as cashier.

Ohio Municipal Comment

By J. AUSTIN WHITE

A growing number of bankers around Ohio, let heaven be praised, are finally coming around to buying municipals at yields under 1%. For years there has been a hard and fast rule with many banks that no municipals would be put in the portfolios at less than 1% yield. As a result of this rule, and the steady rise in the municipal market, these bankers have either quit buying municipals, have reached out into longer and longer maturities to get their "minimum" yield, or have dropped into lower and lower quality to get the yield.

J. Austin White

This situation prevailed to such an extent that even until a few months, nay, even a few weeks ago, a bond could be "given" away at a 1% yield, but just let the price on the same thing be 0.95% and it often stayed on the list for weeks. Finally, it now appears that this old bugaboo of a 1% yield has been routed. More and more bankers are seeing the wisdom of buying short maturities at yields slightly under 1% in preference to stretching out 15 or 20 years just to get that mythical 1%, or perhaps only slightly more.

The Ill Effects of Low Money Rates

There is a great deal of talk these days about the ill effects of low money rates. In fact, one often reads in the press today of concern being expressed about these ill effects, usually by the head of some insurance company, bank or other institution which must derive its income largely from investments. The complaints are to the effect that extremely low, and declining, money rates tend to cause investors to invest the funds entrusted to their care in the securities of lower and lower quality in order to secure more liberal returns.

From the complaints on this subject heard today one would be inclined to think that such a practice of buying lower and lower quality is something new, or perhaps even something that has not yet developed but will surely plague us if money rates decline further.

The truth of the matter is that practically all investors have already, for several years, been adding to their portfolios securities of lower and lower quality, and such a practice will not be started but will simply be continued if money rates decline further.

Lower Quality Comes Also With Confidence

However, the explanation for this buying of poorer quality is not merely that investors have been willing to sacrifice quality to obtain income in a period of low and declining yields. A part of the explanation is that investors are merely human, and it is only human that in times of prosperity the experiences of adversity are forgotten. In good times we forget bad times. To forget is human: to remember, divine. In the realm of municipal bonds, at least, the defaults and adversities of the '30s are forgotten in the prosperous '40s.

Another explanation of the willingness to invest in risks of poorer quality seems to be that confidence begets confidence. There is apparently a universal confidence

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Additional Members for Cincinnati Exchange

CINCINNATI, OHIO—Six additional brokerage firms have been elected to membership in the Cincinnati Stock Exchange. Included are: Edward Brockhaus, Edward Brockhaus & Co.; W. Power Clancey, W. P. Clancey & Co.; Gilbert A. Davis, Harrison & Co.; L. W. Hoefinghoff, L. W. Hoefinghoff & Co., Inc.; Lee R. Staib, Geo. Eustis & Co.; Joseph R. Work, Weiss, Work & Co.

Several other firms are considering filing applications.

These applications are the result of a program of the Exchange to increase its usefulness to all brokers and dealers in securities in the vicinity and increases Exchange membershihp to twenty-seven persons representing twenty-three of the outstanding securities firms in the city.

Other firms, who are members of the Exchange, are:

J. L. Barth Co., Benj. D. Bartlett & Co., Otto Baum & Co., H. B. Cohle & Co., Dominick & Dominick, W. E. Fox & Co., A. & J. Frank Co., W. D. Gradison & Co., Hill & Co., W. E. Hutton & Co., Don D. Kuemmerling, A. Lepper & Co., Merrill Lynch, Pierce, Fenner & Beane, C. H. Reiter & Co., S. F. Stephenson, The Weil, Roth & Irving Co. and Westheimer and Co.

Many months have been spent by Exchange officials working out changes in Exchange Rules making membership attractive to brokers and dealers in the various types of securities business in the city.

The addition of the new members is expected to be of mutual advantage to the brokers and to the Exchange and in the opinion of Exchange officials should make Cincinnati listed securities more attractive to the public by the resulting increase in marketability.

Present trustees and officers of the Exchange are:

J. B. Reynolds, Benj. D. Bartlett & Co., Chairman of the Board; C. H. Steffens, President; L. J. Nussloch, W. E. Fox & Co., Vice-President; A. W. Korte, C. H. Reiter & Co., Treasurer; M. W. Lepper, A. Lepper & Co.; H. B. Cohle, H. B. Cohle & Co.

Cleveland Transit Tax Decision Limited

Ruling of C. Emery Glander, Ohio Tax Administrator, that municipally owned public utilities are not subject to taxation, clarifies considerably an uncertainty which has existed in the minds of city officials throughout Ohio since the Ohio Supreme Court ruling in the Cleveland transit system case. Glander held that electric light, gas, heating and water plants owned by municipalities and their product sold to citizens or consumed by the municipality in its government operation was tax free. Glander held that all property owned by a city or village and used in the operation of any type of railroad system was taxable.

Glander's ruling may not end the matter for his decision in subject to a court appeal.

Foster Bros., Young Co. to Admit John P. Lins

TOLEDO, OHIO—John P. Lins will acquire the New York Stock Exchange membership of Oscar R. Foster and as of April 4th will be admitted to partnership in Foster Bros., Young & Co., 410 Madison Avenue.

Ford Steele Wins AIB Public Speaking Test

CLEVELAND, OHIO—The annual public speaking contest of Cleveland chapter, American Institute of Banking, was won by Ford Steele of Central National Bank of Cleveland and will represent the local chapter at the semi-final contest in Fort Wayne, Ind., in May.

R. Ross Ellis of National City Bank was second and Dorothy Drukenbrod of the Fourth Federal Reserve Bank was third. They also will make the Fort Wayne trip. The national contest will be held in Cincinnati the first week in June. First prize in the finals is $500 and second is worth $250.

Cunningham Co. Now Incorporated; Officers

CLEVELAND, OHIO—Russell I. Cunningham of the Cleveland securities firm of Cunningham & Co., Union Commerce Building, announced he and associates have formed a corporation, effective next Monday.

Mr. Cunningham, former President of the Cleveland Stock Exchange, has been elected President of the new company which will continue under the same name.

Raymond M. Baird and Edward A. Stanton have been elected Vice-Presidents, the latter to be the company's representative in Plainesville, east of Cleveland. Jack M. Mandaville is the Secretary.

Mr. Cunningham was head of the Cleveland exchange for three years, from 1939 to 1941, inclusive.

Lewis Whitney Now With Butler Huff Co.

LOS ANGELES, CALIF.—Lewis J. Whitney, Jr., is with Butler-Huff & Co. of California, 210 West Seventh Street. In the past he was an officer of Huff, Geyer & Hecht, Inc.

Ohio Municipal Price Index

Date—	*	†	‡	§
Mar. 20, 1946	1.13%	1.26%	.99%	.27%
Mar. 13	1.15	1.29	1.01	.28
Mar. 6	1.16	1.30	1.02	.28
Feb. 27	1.16	1.30	1.02	.28
Feb. 20	1.16	1.30	1.02	.28
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.

Ohio Brevities

President John W. Davin of New York, Chicago & St. Louis RR. (Nickel Plate), announced that the road expects to have ready for competitive bidding about April 16 a new offering of $41,500,000 of 40-year bonds.

The road said it was offering the new bonds to take advantage of the continuing downward trend in interest rates, to refund the outstanding $41,796,000 of 3¾% refunding mortgage bonds, due Jan. 1, 1975, which were sold Dec. 19, 1944, to an underwriting group headed by Halsey, Stuart & Co. of Chicago, at a price and interest rate averaging an annual interest cost of 3.73%. The 3¾s, Davin said, will be retired July 1 at 105½ and accrued interest. The road's treasury will contribute the balance needed to retire the bonds.

The new financing will be the fourth under the debt simplification program started by NKP's directors in September, 1944, and reduces the non-equipment debt to $99,500,000. At the end of 1936, this figure stood at $151,662,000. Annual interest charges, NKP stated, have been cut to $3,800,000 from $7,500,000 at the end of 1936 and stands to be trimmed further with the new proposed financing.

* * *

Otis & Co. of Cleveland, reported early this week it had formed an account to bid for proposed new offering of stock by Indianapolis Power & Light Co. of Indianapolis, Ind.

Otis opened a fight for the new issues late last week when it was learned the Indiana utility was planning to turn over the offering to a group of 80 leading bond houses without competitive bidding.

The Cleveland firm then sent a telegram to Indianapolis Power & Light in which it said "if competitive bidding is utilized in the award, with provision made for sealed proposals to be opened in the presence of the bidders and for award of the underwriting to the bidder offering the terms most advantageous to you, Otis & Co. and associates are prepared to submit a proposal to you on a date to be mutually agreed upon by the company and the prospective bidders."

It was then reported over the week-end that the City of Indianapolis had asked the utility to consider competitive bidding and a telegram from Power & Light to Otis stated it believed the directors would ask for bids on the proposed issues—120,000 shares of 4% preferred stock and 142,967 common shares, totaling approximately $15,000,000.

The company plans to give the present preferred holders the opportunity to exchange their stock for the new preferred and that common holders first be offered the new common.

* * *

Two million common shares of Central States Electric Co. has been bought by Otis & Co. from interests associated with Harrison Williams, the Cleveland firm announced.

The announcement added that one-third of the shares was for a group associated with Chairman Robert R. Young and President Allan P. Kirby of Alleghany Corp.; one-third for the account of Pittston Co., an Alleghany subsidiary, and one-third for interests associated with Otis & Co.

* * *

William S. Jack of Cleveland, and B. C. Milner Jr. of New York, head the new company of Jack & Heintz Precision Industries, Inc., formed early in the month by the merger of Cleveland's famed war plant, Jack & Heintz, Inc., and Precision Products Corp., recently incorporated.

Jack took over as Chairman of the board in charge of all production and was succeeded as President by Milner, Precision Products Chairman and President of several other industrial concerns.

Another Jack & Heintz officer, Ralph H. Heintz, Vice-President and Secretary, was named Vice-President of the new concern to head all engineering.

At the time of the merger, Jack stated "we expect our plants to be rolling 100% at the close of the year."

Besides Milner, other new directors of the merged company are Harold C. Richards, a director of Midland Steel Products Corp., Cleveland, Manufacturers Trust Co. and Murray Corp.; Byron C. Foy, a director of Chrysler Corp., Electric Auto-Lite and National Dairy Products; T. Seward Harris, industrialist in New England, and Edward R. Legg, formerly with Nash-Kelvinator Corp.

"Holdup tactics" of a group of

(Continued on page 1669)

Bank and Insurance Stocks

By E. A. VAN DEUSEN

This Week—Insurance Stocks

Two weeks ago this column presented 1945 vs. 1944 operating results for 16 representative stock fire insurance companies, compiled from Best's Bulletins as prepared from the filed convention statements of the companies. This week similar tabulations are shown for 16 additional companies, together with revised figures for Insurance Co. of North America. All figures are on a parent company basis.

	1944				1945			
	Net Und. $	Net Inv. Inc. $	Fed. Taxes $	Total Net Oper. $	Net Und. $	Net Inv. Inc. $	Fed. Taxes $	Total Net Oper. $
American Equitable	—2.88	1.97	---	—0.91	—2.73	1.75	----	—0.98
Boston	0.44	3.13	0.15	3.42	—0.09	3.12	0.03	3.00
Continental	0.84	2.41	0.44	2.81	1.26	2.49	0.71	3.04
Fidelity-Phenix	0.77	2.70	0.35	3.12	0.94	2.74	0.53	3.15
Franklin	—0.54	1.35	0.20	0.61	0.40	1.40	0.35	1.45
Glen Falls	1.69	1.49	0.28	2.90	1.25	1.91	0.35	2.81
Globe & Republic	—1.71	1.12	---	—0.59	—1.79	0.98	---	—0.81
Hanover	0.28	1.59	0.10	1.77	—0.58	1.61	0.26	0.77
Hartford	2.29	3.54	0.78	5.05	3.84	3.72	1.25	6.31
Home	0.25	1.44	0.17	1.52	1.41	1.47	0.64	2.24
*Ins. Co. of N. A.	2.06	4.32	1.00	5.38	1.37	3.72	0.59	4.50
National Fire	—2.67	2.33	Cr0.01	—0.33	—1.20	2.41	---	1.21
New Hampshire	—0.43	2.22	Cr0.07	1.86	—1.31	2.28	Cr0.07	1.04
Prov. Washington	0.96	1.87	0.18	2.65	1.34	1.80	0.49	2.65
St. Paul F. & M.	1.92	2.88	—0.48	4.32	1.90	2.97	0.91	3.96
Security	—0.70	1.68	0.06	0.92	—0.04	1.69	0.01	1.64
Springfield F. & M.	—1.35	5.72	0.01	4.36	—1.63	5.78	---	4.15

*1,200,000 shares in 1944; 1,500,000 shares in 1945.

It will be observed that American Equitable and Globe & Republic each report net operating losses in 1945, as also in 1944. National Fire, however, reports a net operating profit in 1945 against a loss in 1944.

Continental, Fidelity - Phenix, Franklin, Hartford, Home and Security, show improved earnings in 1945 compared with 1944, while Boston, Glen Falls, Hanover, New Hampshire, St. Paul and Springfield report lowered earnings. Net operating earnings for Prvidence Washington amounted to $2.65 each year. With regard to Insurance of North America, the drop in earnings per share is occasioned by the increased capitalization from $12,000,000 to $15,000,000; aggregate net earnings for the company were $6,769,000 in 1945 compared with $6,454,000 in 1944.

Most companies show moderate betterment in net investment income, while Franklin, Home, Hartford and Providence-Washington show striking improvement in net underwriting results. Companies which show underwriting losses in 1945 are: American Equitable, Boston, Globe & Republic, Hanover, National Fire, New Hampshire, Security and Springfield.

Fire Losses: Thus far in 1946 fire losses have been heavy. As reported by the National Board of Fire Underwriters, January and February estimated losses for 1946, compared with previous years, are shown below.

Losses for the 12 months of 1945 amounted to $455,239,000 compared with $423,538,000 in 1944, an increase of $31,701,000 or 7.5%. Despite this, many stock fire insurance companies showed better underwriting results in 1945 than in the previous year. Thus, heavy fire losses in any one year do not necessarily imply lower underwriting profits or underwriting losses. Relative fire losses year by year must be weighed against the net premium income, which may be expanding sufficiently to cushion some of the shock of a high volume of losses. Thus, despite the 7.5% increase in losses during 1945 over 1944, 16 of the 32 companies shown in this week's table and the table of two weeks ago, reported an improvement in 1945 underwriting results. Furthermore, Best's Bulletin Service reports that the annual statements

	1946	1945	1944
January	$49,808,000	$44,865,000	$36,572,000
February	51,759,000	41,457,000	38,280,000
Total, 2 months	$101,567,000	$86,322,000	$74,852,000

of 242 stock fire insurance companies, which underwrite approximately 95% of the total fire and marine business, showed a rise of **less than one point** in their 1945 loss ratio of 57.9%, and a fractional decline in expense ratio to 41.2%, bringing their combined loss and expense ratio to 99.1%. Their aggregate net premium income expanded 8% over 1944.

Despite this favorable showing, fire insurance stocks should be selected this year with great care, in view of the continuation of heavy fire losses. The figures presented this week and two weeks ago may serve as a guide in pointing to those companies whose underwriting experience during the war years warrants the assumption that they will again do comparatively well in 1946.

Replacing Resigned Securities Commissioners

(Continued from page 1631)

we nevertheless feel that the appointment of political hacks is to be sedulously avoided.

It will be asked, how about appointing men who are already employed by the SEC—moving them up, so to speak.

We oppose this because these men will have been indoctrinated with the existing ideology of the Commission, implying, among other things, regimentation of the securities industry, control of profit, the prying questionnaire technique, disregard of trade custom and usage, and hair-splitting interpretations requiring an elbow-lawyer in every securities house.

The Commission's repeated reaching out for powers not embraced within the Securities Act has received our steady criticism.

We have contended that, using its rule-making power as a guise, the SEC has in effect usurped certain legislative functions which the Congress never intended to delegate to it, and which, even if the Legislature intended that there be a delegation of such power, the law-making body was powerless to assign.

In our opinion the new Commissioners should have a basic knowledge of the securities business gained through actual experience.

Before appointment, their qualifications should be efficiently probed and publicized.

Although the Commission administers a number of laws, including the Investment Advisers Act and the Holding Company Act, it is in the Trading and Exchange Division that repeated weakness has been shown.

The Commission needs the vibrant energy of men who understand trading from all of its viewpoints, over-the-counter as well as on the exchanges.

It needs men who have spent many years in the activities of underwriting, buying and selling.

Not only must the point of view of the general public be understood but those of the dealer and the broker must also be encompassed.

Above all, a sound knowledge of the customs and usages of the trade must constitute the basic background of their experience in the securities business.

There are such men and their services are sorely needed.

The addition of brass hat bureaucrats must be avoided.

The opportunity is now afforded to place in key positions two men of sympathetic understanding who will see to it that the unnecessarily restrictive shackles which now hamstring those in the investment field are removed.

Dealers, brokers and underwriters should forthwith communicate with their Congressmen to the end that proper appointees be recommended.

Temporary Quarters for World Fund and Bank

Fund Will Be Housed in Hotel Washington in National Capital and Bank Will Be Quartered in State Department. Executive Directors to Meet in May. System of Compensation of Directors and Governors.

WASHINGTON, March 27.—Temporary Washington headquarters for the World Fund will be in the Hotel Washington, just across the street from the United States Treasury, commencing the latter part of this week. The mezzanine rooms engaged for the purpose include a room adequate for the initial meetings of the executive directors in May. In addition the hotel will set aside approximately thirty bed rooms for those executive directors and alternates desiring them. Travel, hotel and other necessary expenses will all be taken care of by the Fund, as is provided in the by-laws adopted at Savannah. In addition, executive directors in both Fund and Bank are to be paid $17,000 per annum net after national taxes, provided they work the full year; and the alternate executive directors will receive $11,500 net.

The World Bank's temporary headquarters are in the State Department.

In May only the executive directors and alternates of Fund and Bank are required to meet in Washington. The next meetings of the boards of governors of the two institutions are not scheduled until September. Governors and alternate governors under the Bretton Woods Agreements are not to be paid for their services by the Fund and Bank, but rather by their respective governments. However, according to a decision reached at Savannah, they are to get from Fund and Bank their actual travel expenses plus fifty dollars a day, with a slight deduction whenever accommodation is supplied by the transportation company.

The fifty dollars a day in many cases will add up to a sizable amount and comes very close to constituting compensation. It is paid for the period beginning with the individual's departure from his home and ending with his return there. If, as has occurred, he cannot obtain space on a return plane, train or boat as soon as he wants it, all he has to do is wait,—at $50 a day. It is estimated that the bills of some of the delegates to Savannah will come to several thousand dollars, depending on how lucky they are in getting off on the home journey.

Halsey, Stuart Heads Syndicate Offering Hackensack Water 2⅝s

Halsey, Stuart & Co., Inc., heads an underwriting group that is offering today (March 28) $15,000,000 Hackensack Water Co. first mortgage bonds, 2⅝% series due 1976 at 105% and accrued interest. The bankers won the award March 26 on their bid of 104.42%. The proceeds, together with other funds of the company and the proceeds of short-term borrowing, if required, will be applied toward the redemption on or about June 10, 1946, of its outstanding $14,350,000 first mortgage bonds, series A, 3½% due Oct. 1, 1968 at 107½% and accrued interest.

The 2⅝% bonds are redeemable at prices ranging from 109⅜% to par, plus accrued interest to the redemption date. The bonds also are redeemable under certain conditions as set forth in the mortgage at prices ranging from 106% to par, plus accrued interest to the redemption date.

Capitalization of the company, after the present financing, will consist of $15,000,000 first mortgage bonds, 2⅝% series due 1976 and 307,500 shares of common stock ($25 par value).

Toppell Back From Extended Business Trip

Jack Toppell, Director of Research for Luckhurst & Co., 40 Exchange Place, New York City, has just returned from a circuit of western New York, Ohio and Michigan. He said yesterday that the top officials of every industrial company he visited were highly optimistic about the general business picture. He pointed out that although the consensus of opinion was one of criticism of current OPA pricing policies, it was felt that the basic economic forces will reassert themselves and allow the average industrial firm a normal operating profit margin.

What's New at Metropolitan?

THERE is much good news for policyholders in the 1945 record of the Metropolitan Life Insurance Company.

Payments to policyholders and their beneficiaries reached a new all-time high of $623,000,000.

Mortality among policyholders, excluding war deaths, was the lowest on record. The yield on the Company's investments followed the general trend and declined somewhat. The Company had asset gains which made it possible to revise policy and annuity reserves so as to reflect lower interest earnings. Scales of dividends to policyholders were maintained, and in some cases slightly increased.

Unassigned surplus funds at the year end amounted to $448,600,000. In addition the Company had special surplus funds of $109,400,000, of which $95,100,000 represented a special reserve for possible loss or fluctuation in the value of investments and $14,300,000 a Group Insurance reserve for epidemics, etc. These funds represent an extra cushion of safety for policyholders.

In its report to policyholders for 1945, Metropolitan provides answers to many of the questions a policyholder would be likely to ask if he could make a personal visit to the Company. Among questions answered, for example, are...

Were there many extra claim payments last year due to the war?

Would longer life for policyholders reduce the cost of Life Insurance?

In what types of investments did the Company put its money?

What does the Company advise about National Service Life Insurance?

In addition to answering these and many other questions, the report gives a financial summary of the Company's operations during 1945. Whether or not you are a policyholder, you will find this report interesting and informative. To get a copy, just write and ask for the Company's annual report entitled, "What's New at Metropolitan?"

BUSINESS REPORT FOR 1945

In accordance with the Annual Statement as of December 31, 1945, filed with the New York State Insurance Department.

OBLIGATIONS TO POLICYHOLDERS, BENEFICIARIES, AND OTHERS

Policy Reserves Required by Law. This amount, together with future premiums and interest, is required to assure payment of all future policy benefits.	$6,400,802,374.47
Policy Proceeds and Dividends Held at Interest. These are funds left with the Company to be paid in the future.	342,073,866.83
Reserved for Dividends to Policyholders Set aside for payment in 1946 to those policyholders eligible to receive them.	123,338,706.00
Other Policy Obligations. Claims in process of settlement, estimated claims not yet reported, premiums received in advance, etc.	67,108,358.06
Taxes Accrued Includes estimated amount of taxes payable in 1946 on the business of 1945.	20,019,592.00
Contingency Reserve for Mortgage Loans	21,000,000.00
Miscellaneous Liabilities	29,587,557.57
TOTAL OBLIGATIONS	$7,003,930,454.93

ASSETS WHICH ASSURE FULFILLMENT OF OBLIGATIONS

National Government Securities United States and Canadian.		$3,901,918,692.03
Other Bonds.		1,729,338,186.57
Provincial, State, and Municipal	$ 92,780,754.21	
Railroad	584,361,368.30	
Public Utilities	656,189,313.94	
Industrial and Miscellaneous	396,006,750.12	
Stocks. All but $4,076,225.49 are Preferred or Guaranteed.		114,550,034.03
First Mortgage Loans on Real Estate		870,363,554.77
Farms	$ 86,606,570.02	
Other Property	783,756,984.75	
Loans on Policies Made to policyholders on the security of their policies.		343,512,038.44
Real Estate Owned Includes $39,300,334.74 real estate under contract of sale and $147,436,299.08 Housing Projects and real estate for Company use.		259,557,120.46
Cash Deposited in banks, in transit, or on hand.		175,687,154.11
Other Assets Premiums due and deferred, interest and rents due and accrued, etc.		167,070,489.96
TOTAL ASSETS TO MEET OBLIGATIONS		$7,561,997,270.37

Thus, Assets exceed Obligations by $558,066,815.44. This safety fund, representing about 8% of the obligations, serves as a cushion against possible unfavorable experience and gives extra assurance that all policy benefits will be paid in full as they fall due. This fund is made up of:

A Special Surplus Fund (including $95,112,000.00 for possible loss or fluctuation in the value of investments)	$109,422,000.00
Unassigned Funds (Surplus)	448,644,815.44

NOTE:—Assets carried at $360,747,351.78 in the above statement are deposited with various public officials under requirements of law or regulatory authority. Canadian business embraced in this statement is reported on basis of par of exchange.

HIGHLIGHTS OF 1945 OPERATIONS

Life Insurance in Force, End of 1945	$31,261,969,817
Paid-for Life Insurance Issued During 1945	$2,143,423,150
Amount Paid to Policyholders During 1945	$623,443,185.86

Metropolitan Life Insurance Company

(A MUTUAL COMPANY)

Frederick H. Ecker, CHAIRMAN OF THE BOARD *Leroy A. Lincoln*, PRESIDENT 1 MADISON AVENUE, NEW YORK 10, N.Y.

Railroad Securities

The common stock of Atchison, Topeka & Santa Fe has been attracting a large volume of investment buying recently and as a result has been giving a better market performance than railroad securities as a whole. Atchison has long been considered among the prime credits in the rail field, a confidence certainly justified by its record of profitable operations in every year since its organization somewhat more than 50 years ago. To this inherent strength has been added the very substantial progress, both physical and financial, made by the management during the war years.

Despite the basic strength of the road's debt structure the management has not been content to rest on its laurels. Rather, it has engaged in an aggressive debt retirement program which compares favorably with the accomplishments of many of the railroads which prewar were strictly marginal in character or even on the verge of bankruptcy. Non-equipment debt has been cut nearly a third in the past few years to the present level of $203,155,500 represented entirely by non-callable 4% bonds maturing in 1995. The cut in charges was somewhat wider inasmuch as most of the debt retired carried coupons of more than 4%. There are also outstanding $27,420,000 of equipment obligations.

The total funded debt now outstanding amounts to only $230,-575,500. In comparison the road has spent $221,419,000 on additions and betterments to property and equipment in the period 1940-1945, inclusive. A large part of this money was spent on new equipment, including a substantial number of road freight diesel locomotives, which were paid for with cash rather than financed. There are few, if any, major carriers in the country that can point to an aggregate debt only moderately higher than gross capital expenditures on the property during the war years. Moreover, these capital expenditures were superimposed on liberal maintenance outlays over a long period of years.

Despite the utilization of large sums of cash for debt retirement and property improvements and additions, the road has achieved a very strong financial status. As of the end of last year net working capital amounted to $108,339,-000, equivalent to almost 50% of the total funded debt, including equipments. It is interesting to note that year-end net working capital plus the 1940-1945 additions and betterments (a total of $329,758,000) would cover 93% of capital obligations senior to the common stock. The total of senior capital obligations as of the end of 1945 amounted to $354,748,-300, including $124,172,800 of 5% non-callable preferred.

Obviously if the additions and betterments of recent years have had any economic justification the common stock has been advanced to a very strong earnings position. Actually, many of the improvements, particularly dieselization of mountainous sections, reduction of grades and curves, and installation of heavy rail on main lines, should bring very substantial savings in operating costs. If it is assumed that the company will earn a return of 15% on gross capital expenditures made since the beginning of 1940, which appears conservative, and allowing for the reduction in fixed charges, there has been an increase in potential earning power of the Atchison common of more than $9.50 a share in recent years. This is after allowing for a Federal income tax rate of 38%.

In recent years dividends have been paid at the rate of $6.00 a share. Considering the company's strong finances and the fact that none of the remaining debt nor the preferred stock can be called, many rail men look for an increase in this rate in the course of time. Eliminating the extraordinary item of amortization and adjusting to the present Federal income tax rate, pro-forma earnings on the stock last year would have been close to $40.00. Certainly they should not drop below $15.00-$18.00 even in 1946 which will be a generally poor railroad year.

Charles Ivey Forming Own Firm in Norfolk

NORFOLK, VA. — Charles L. Ivey is forming C. L. Ivey & Co., with offices at 201 East Plume Street, to engage in the investment business. Mr. Ivey was formerly a partner in Virginia Securities Company.

Prospects for the Railroad Equipment Industry

Domestic and Export Potential for Cars and Locomotives Huge

Railroad equipment shares have done little more than follow the market during 1945 and so far in 1946. Certain underlying factors lead to the conclusion that once industrial activity takes a firm upward turn, the railroad equipments will better the averages.

There is no question but that deferred demand both here and abroad for locomotives and freight and passenger cars is enormous. The market for such equipment is estimated both by railroad men and those in the industry to be sufficiently large to keep the manufacturers busy for five years.

It is not necessary to quote many figures on present rolling stock and replacements over the past 15 years to show that cars in service are for the most part obsolete and generally in a worn, inefficient condition. Riders in passenger cars during the war years know the shape they are in and mere observation of freight cars indicates their poor plight. Freight cars, however, have been replaced at a more rapid rate than have passenger cars—none of the latter were manufactured in either 1943 or 1944.

Demand for passenger cars is estimated to be between 10,000 and 15,000, plus 3,500 Pullmans, about half the number of Pullmans now in service. Between 1932 and the end of 1943, only 2,511 passenger cars were installed by Class I roads compared with 13,782 retired, according to the American Association of Railroads. This means that only 18% of the passenger cars retired were replaced. There were 49,353 passenger cars in service in 1932 and only 37,940 in 1943. Between 1931 and 1940, the railroads installed, on the average, 0.5% in terms of passenger cars on hand, compared with a replacement rate of 4.5% in the 1921-1930 period.

Anticipated requirements through 1950 for freight cars from Class I roads total 70,000 units. While replacement of freight cars has proceeded at a faster clip than passenger cars, orders for 70,000 would be sizable relative to the level of recent purchases. As of Feb. 1, 1946, 38,000 freight cars were on order from Class I roads. Between 1932 and the end of 1943, these roads installed 404,249 cars (an average of 33,700 yearly) and retired 889,181 (an average of 74,000 yearly), so that installations were equivalent to only 45% of retirements. The result at the end of 1943 was that 18% fewer cars were in service than in 1932; capacity also was substantially less. In the decade prior to 1940, annual replacements of 2% in terms of cars on hand was less than half of the 4.6% replacement rate of the 1921-1930 period.

Although approximately 1,000 new locomotives were built during the war, 50% of those on hand even now are over 25 years old. The builders estimate that over 1,200 locomotives annually will be required over the next six years. Both in terms of tractive power and units on hand, the railroads own less than in 1925. In that year locomotives owned by Class I roads totaled 64,357 units with total tractive power of 2,596 million pounds. For 1945 the figures are 39,221 and 2,093 million, reductions of 39% and 19%, respectively.

Since only a handful of roads were able to avoid at best the brink of bankruptcy during the 1931-1940 era it is not surprising that rolling stock deteriorated to a serious extent. The further burden placed on this already obsolescent equipment by war necessities hastened its deterioration. Now, the financial condition of the railroads is excellent and they are anxious and ready to spend cash for new equipment. While the total working capital of Class I roads at the end of 1930 was $120 million, the 1945 year-end figure was $2.1 billion. Funded debt, too, improved substantially, down to about $8.5 billion from $10.7 billion in 1930.

Export potential for cars and locomotives over the next few years is huge. Freight car needs may reach 300,000 with the longer term total pointing substantially higher. Foreign requirements for locomotives even now are approximately 10,000 and this figure could double in the coming five years. Immediate prospects are led by Russia and include France, Belgium, Holland and Turkey.

Traditionally, the railroads await definite signals of uptrending industrial activity before making long-term commitments for rolling stock. Consequently, the large orders have not yet been forthcoming, although present activity at builders' plants is

Investigate Before You Invest—In Hotel Securities

(Continued from page 1635)
and is going higher because of price ceilings, on the one hand, and increased operating costs on the other. For example, Government figures show that hotel payrolls are up 68% over 1939.

Occupancy Tells the Story

One has only to trace the occupancy records of hotels to see what unwise overbuilding did. From a high of 85% in 1920, hotel occupancy droped to 70% by 1924. Even in the era of prosperity —from 1925 through 1928—it did not exceed 70%. In the depression year 1932, occupancy hit an all-time low of 51%. In spite of all this, in each year from 1927 through 1930, an average of $140 millions was invested in new hotels.

In those days, hotel construction was loaded with extra charges, bond discounts, high coupon second, even third mortgages. Too many investors believed they were putting their dollars into a building rather than a business—a business whose earnings feel reactions from the mildest fluctuations of general economic conditions; a business with large capital investment and comparatively small annual sales; a business with high fixed capital charges.

Annual hotel sales are relatively small when projected against capital investment. Estimates say that it takes hotels from three to five years to turn over their capital. The hotel debacle taught investors that sufficient earnings must be derived from relatively small sales to pay interest on funded debt, taxes and depreciation.

Other Industries Had Similar Problems

A parallel to this large capital investment, small sales turnover, can found in several heavy industries. For example, the electric power industry, valued at $12 billions, has average annual sales of $1.75 billions, or a 15% turnover. Railroads, having a valuation of $25.6 billions, have a 13% turnover. In fact, the rail industry's experience somewhat parallels that of hotels. 31% of the total U. S. railroad mileage was in the hands of receivers and trustees by 1939. Like hotels, they were unable to earn enough to meet fixed capital charges. Unlike the electric power industry, however, hotels can not depend on steady year-in- year-out business volume.

Over-Emphasized Borrowed Money

During the hotel building boom, from 1920 to 1932, promoters and builders put entirely too much emphasis on mortgage money and not enough on risk capital. It is conservatively estimated that three-quarters of the funds used to purchase real estate and build hotels were raised on loans of one type or another.

In larger cities, something like this often happened: the land for a new hotel was purchased at, say, $25,000, and was put into the deal at $100,000. Then a bond issue was floated for, say, $750,000 face value of 6% bonds, sold to a security house at 90, and thus producing $675,000. From the proceeds, $100,000 went to the owner of the land and an excessive profit was paid to the builder. Thus, when the new hotel opened its doors, it had to earn $45,000 annual interest on $750,000, although the actual investment was under $600,000.

In many smaller cities, the community-financed hotel became the vogue. Local citizens or outside promoters decided that the city needed a grand new hotel. The arguments were so impassioned that anyone who resisted them was considered as totally lacking in civic pride. Enthusiasm was stirred up and then came a series of deals. The land often was purchased at an unreasonably high profit to the owner. Local contractors were awarded jobs at over-fat figures. In many instances, a local architect was over-paid for *his* contribution. And when the building was completed, the business was entrusted to an inexperienced hotel manager.

A Hotel Should Be Evaluated As A Business

One of the reasons for the fiasco was that the public usually considered a new hotel as an investment in real estate. Many hotel builders did not charge depreciation against operations, reasoning that it would be more than offset by land appreciation. Instead, real estate values droped, and hotels were sold for a fraction of the original cost. Chicago's Stevens Hotel is a typical example. It cost $28 millions to build in 1927. By 1930, bonds on this, the largest hotel in the world, were offered for a few cents on the dollar. Recently, Hilton Hotels of America purchased the Stevens for $7½ millions.

Furthermore, in too many instances, builders did not select the management of a new hotel until it was ready for business. Consequently, if an experienced manager was hired, he was forced to do the best he could with an operation in which he had no hand in the planning.

The result of the hotel building boom was that even conservative institutional lenders found themselves in the hotel business, whether they liked it or not. At one time, a large insurance company owned 138 hotels.

Certainly banks have learned *their* lesson. In fact, they learned it in 1927, because by that time institutional lenders had largely withdrawn from financing hotel projects. Unfortunately, this indication that hotel construction was no longer considered a sound investment did not discourage building. Increased numbers of bond issues for sale to the general public soon filled the gap left by the more conservative institutional lenders.

Public Issues Defaulted

Of course, these publicly distributed bond issues became increasingly risky. The proportion of equity to borrowed money decreased so that in some instances it represented but a small part of the total capitalization.

The proof of this is recorded in yellowing newspaper files. A New York daily, on Oct. 31, 1930, carried an impressive advertisement. Placed by a then-prominent real estate mortgage company, the advertisement caught the inventor's eye with this headline:

THE ISLAND OF MANHATTAN
An Impressive Record of Sound Lending

It then went on to say, among other things, that: "A survey of our lending operations will show why we consider bonds secured by Manhattan properties the soundest real estate mortgages in the world."

Of the 188 listings issued, 22 were on hotels. Of this 22, 19 defaulted—six within one year of the advertisement's appearance; eight within two years; two within three years; and the remaining three were supported by realty interests until 1938, 1939, and 1940, when they, too, defaulted.

When we understand just what happened, it is easy to see why, in the era of recovery—1936 through 1940—hotel occupancy reached as high as 66% in *only one year*. In addition to the occupancy figures, the sluggish recovery of hotel business was reflected in the prices of hotel securities. For comparison, Dow-Jones averages reveal that industrials in 1940 showed a 175% increase over 1932; rails made a 1907% per cent gain; but hotel securities, according to a reliable authority, showed only 103% increase in 1940 over 1932.

The figures reveal that the business upsurge caused by war in Europe, as well as our own lend-lease and defense programs, was not felt by the hotel industry until 1942, when this country was actually at war. Therefore, it is only logical to assume that when conditions return to normal there will, in most cases, be ample hotel accommodations, even if future travel materially exceeds pre-war peaks.

Four Points for Evaluating A New Hotel

With the true facts in proper perspective, it is my opinion that investors and financial instiutions should adhere to these four points if a poor hotel investment is to be avoided:

1. An independent survey should should be made to ascertain the soundness of the project;
2. Plans and specifications should be prepared and supervised by an experienced hotel architect who knows how to build economically;
3. The best available operating management should be retained for guidance through every step of the planning, financing, building, and on through the management of the business;
4. The property should be realistically financed and precautions taken to be sure that no water seeps into the financing.

This warning would be somewhat ill-advised if the hotel industry was not geared to rehabilitate existing properties thoroughly and to offer future guests top-notch services and accommodations. However, the American Hotel Association recently completed a comprehensive survey which discloses that some 13,000 hotels will, as promptly as possible, spend almost $1½ billion for modernization, expansion, and rehabilitation. In short, the industry will offer the finest facilities in the history of the hotel business as soon as materials become available.

Robert Krieger Joins Reinholdt & Gardner

Robert E. Kreiger has become associated with the New York office of Reinholdt & Gardner, 14 Wall Street, as manager of the municipal bond department. Mr. Kreiger was formerly trading manager for Charles H. Drew & Co.

Rieley Heads Bldg. Price Division of OPA

Gordon Rieley, Vice-President of Bryant Heater Company of Cleveland, Ohio, has been appointed director of the newly established building and construction price division of the Office of Price Administration, and is on leave of absence to assume his new duties immediately, it is announced by Lyle C. Harvey, President of the Company.

at a very satisfactory level. A clarification of the whole industrial outlook, however, will undoubtedly witness a flood of orders.

All the equipment builders stand to benefit and war built expansion in most plants will be useful during this period. The declining importance of company shops in the passenger car field will aid American Car & Foundry, Budd and Pullman, which companies handle most of this business. But to relatively small earnings during 1936-1939, the base years for computing excess profits taxes, the equipment producers were in the high tax brackets during the base years. The accompanying table indicates latest earnings, dividends, prices and ranges, together with latest earnings adjusted to the present 38% combined Federal income and surtax.

	Current Price	Earned Per Share 1944	Adjusted to 38% Tax Rate	1945 Dividend	1937-1945 Price Range
American Brake Shoe	52	2.77	3.77	1.65	81-23
American Locomotive	36½	4.58	12.05	1.65	59-6
American Steel Foundries	42¼	*5.25	6.20	2.00	73-16
Baldwin Locomotive	32⅞	3.81	10.15	1.50	37-5
Budd Manufacturing	22	0.73	2.84	0.25	25-2
General American Transportation	63½	3.05	7.15	2.50	86-29
Lima Locomotive	73	*5.68	17.30	2.50	88-13
New York Air Brake	56	*2.28	3.81	2.00	99-20
Pullman	60½	3.99	8.27	3.00	72-17

*1945 earnings.

Mutual Funds

The Sober Facts

We frequently become so engrossed in the daily routine of our respective jobs that it is easy to lose sight of the long-term factors which affect us. For example, here are some of the sober facts which are going to have a direct and predominant bearing on the future of the investment company business in this country:

1. Our total money supply—bank deposits and money in circulation—now amounts to approximately $185 billion. This compares with a total of about $55 billion in the boom year 1929.
2. Today our money supply rests largely on Government debt. It has been created largely through the sale of Government bonds to the banks. It does not rest on loans which can be called or mortgages which can be foreclosed. In a very real and practical sense, it is a permanent supply. In terms of its purchasing power it represents the greatest volume of investable funds the world has ever seen.
3. Our huge money supply is more widely distributed—is owned by more people—than ever before in our history.

What do these facts add up to for those of us who are engaged in the investment company business? Simply this—the need for sound, well-managed investment companies is greater than ever before. The economic "area" requiring the type of services which mutual funds perform has broadened in volume and scope far beyond even the most visionary dreams of their sponsors only a few short years ago. Today all the mutual funds together have less than $1½ billion of assets to manage. Obviously the surface has hardly been scratched.

* * * * *

"Fundamentals of Sound Investment"

Keystone Co.'s current issue of Keynotes analyzes the investment account of Harvard University as of June 30, 1945. Of the $163,000,000 book value in the Harvard Fund, 50.42% was invested in bonds; 11.06% in preferred stocks; 34.37% in common stocks and 2.31% in real estate and mortgages. Only 1.84% was held in cash.

The University follows a policy of wide diversification. There were 177 corporate bonds in the portfolio, 94 preferred stocks and 180 common stocks, with the largest single holding representing less than 3% of the total.

As Keystone Co. points out, in every investment program regardless of size, first, is the need for diversification among classes of securities and individual issues; second, is the need for competent investment research in the selection of securities, and third, is the need for constant supervision by professional investment analysts.

Wage-Price Policy

National Securities & Research Corp. devotes the current issue of Investment Timing to a discussion of "The Inadequacy of the Administration's Wage-Price Policy." Feature by feature this policy is analyzed and the conclusion is reached that it is not a new policy but an adaptation of the old. Its principal favorable feature is recognition of the inevitability of price increases but under OPA's present attitude it is likely that many of the price increases granted will prove inadequate. While it is expected that Congress will extend the OPA beyond June 30, "time is the factor in the pricing problem which should see considerable relief over the next few months."

Railroad Stocks

"Good Value in Selected Railroad Stocks," is the title of a new folder by **Distributors Group.** It reveals that selected railroad stocks today offer:

1. More than twice the earnings per dollar that the same stocks offered in a past period of prosperity.
2. More than twice the earnings per dollar that a representative list of industrial stocks offers today.
3. Estimated future earnings for about a third of the price presently afforded by the industrial stocks in the Dow-Jones Average.

Securities—Plus Management

Selected Investments Co., in the current issue of Selections points out that when you purchase the shares of an investment company "you buy management as well as securities."

At present, the management of **Selected American Shares** believes we are probably in a transition period from one phase to another in a broad, long-term bull market. It believes some of the stocks it has held are no longer particularly attractive and that other stocks are becoming more attractive than was previously recognized.

Under a management policy which utilizes bonds and preferred stocks, when a period of unsettlement or change is believed to lie ahead. Selected now has buying power in the form of highest grade bonds. If another favorable opportunity to buy as in late February should develop, these bonds may be traded into stocks which the management believes to be attractive.

Investors Mutual

Net assets of **Investors Mutual** as of March 15, 1946, were $83,418,567 with shares currently owned by more than 40,000 shareholders.

Continuing to follow a "middle of the road" investment policy, the Fund's portfolio of securities as of March 15 showed: 16.3% invested in bonds; 31.3% in preferred stocks, and 52.4% in common stocks. In addition the company held uninvested cash in the amount of $6,586,422. Net asset value per share on March 15 was $13.885.

Union Bond Fund A

In a current memorandum on **Union Bond Fund A,** the sponsor, **Lord Abbett,** presents a chart comparing the market action of this Fund with that of the Dow-Jones Industrials during the February break. Whereas the general stock market was off approximately 10% during this decline, UBA actually showed a slight increase in asset value per share and, on the day the Dow-Jones Industrials declined $8.50, the decline in UBA amounts to only one cent per share. Thus, states the sponsor, is UBA fulfilling the objective for which it was created: "A broadly diversified portfolio of good grade bonds selected for relative stability and a reasonable return."

Broad Street and National

The investment management for these two funds is provided by the Union Service Corp. and in current letters the performance of each fund for the past several years is shown.

In the case of **National Investors,** total appreciation in net asset value per share from the beginning of 1942 through the end of 1945 amounted to 178.3% as compared with a gain of 74.2% in the Dow-Jones Industrial Average.

Broad Street, whose management has been in the hands of Union Service Corp. over a longer period shows an increase in asset value per share between Jan. 1, 1930, and Dec. 31, 1945, from $28.54 to $41.27. During the same period the Dow-Jones Industrial Average showed a net decline from 248.48 to 192.91, or 23.5%.

Investing Your Backlog

A new folder on **Fully Administered Shares** was published last week by **Distributors Group.** It reveals that in the recent setback, as in the preceding year of advance, Fully Administered Shares has continued to outperform the Averages.

Growth of Specialty Funds

A memorandum from **National Securities & Research Corp.** presents in chart form the growth figures of specialty funds recently published by the National Association of Investment Companies. Total net assets of such funds on Dec. 31, 1940, amounted to $50,883,000. As of Dec. 31, 1945, total net assets of these funds had increased to $359,316,000 — a growth of over 600% during the last five years.

Massachusetts Investors Second Fund

In the 53rd Quarterly Report of this Fund, net assets as of Feb. 28, 1946, are shown at $15,005,599—equivalent to $15.66 per share.

Mutual Fund Literature

Lord, Abbett—Current issue of Abstracts discussing the first quarter dividend on **Affiliated Fund.** . . . **Selected Investments Co.**—Current issue of "These Things Seemed Important." . . . **Keystone Co.**—Revised issue of the folder "10 Securities" with figures as of Jan. 1, 1946.

Dividends

Affiliated Fund, Inc.—A regular quarterly dividend of 3c per share payable April 20, 1946, to stock of record April 10.

Investors Mutual, Inc.—A quarterly dividend of 8c a share payable April 20, 1946, to shareholders of record March 31.

Massachusetts Investors Trust—A quarterly dividend of 22c per share payable April 20, 1946, to shareholders of record March 29.

Institutional Securities, Ltd.—A semi-annual cash distribution of 50c per share on Aviation Group Shares payable May 31, 1946 to stock of record April 30.

C. R. Palmer Public Gov. of N. Y. Exchange

Emil Schram, President of the New York Stock Exchange, announced the election of C. Robert Palmer, President of Cluett, Peabody & Co., Inc., as a Public Governor of the Exchange. He succeeds Robert V. Fleming, President and Chairman of the board of the Riggs National Bank of Washington, D. C., who resigned after serving from Feb. 13, 1942.

Mr. Palmer is a native of Iowa and was educated in that State, having attended Upper Iowa University. He joined Cluett, Peabody & Co., Inc. in Troy, New York, in 1908 as a salesman and advanced by steady promotion to the Presidency in 1929. He is a director of the Manufacturers Trust Company of New York. He lives at 12 Plateau Circle, Bronxville. His office is at 10 East 40th Street.

The Constitution of the Exchange provides for two Public Governors. The other Public Governor is John Quincy Adams of Chicago, who has been a member of the Board since Feb. 13, 1942.

NYSE Reports on Non-Member Customers' Margin Accounts

The New York Stock Exchange in a notice to the Clearing Member Firms of the Exchange on March 18 stated that "in view of recent changes in margin regulations tending to decrease the number of shares bought and sold for non-member customers' margin accounts, clearing member firms no longer will be required to report these items on Form 120." The announcement made by Acting Secretary Korn, added:

"Beginning with the trade date of Monday, March 11, and until further notice, reports on Form 120 will be confined to information relative to all round-lot sales and, reported separately, short sales of stocks made on the Exchange, settled or cleared by you."

The Clearing Member Firms were asked to inform correspondent firms for whom they carry omnibus accounts of this change in the Exchange's reporting program.

Statistical Miasma and Administrative Blunders

(Continued from page 1634)
capital. The Brookings Institution in Washington, the Bureau of Economic Research in New York, and the defunct "Temporary National Economic Committee" of Congress have made investigations along these lines. But very little in the way of theoretical or practical results have been accomplished from these studies. The definite sources of capital formation have not yet been established. The character of capital formation is still unverified. The rate of capital formation is still undetermined, and such conclusions as have been drawn are largely a matter of guesswork or deductions from "metaphysical" and crazy-quilt sources.

As an example, we are told in a monograph entitled "Savings, Investment and National Income," by Oscar L. Altman, published by the Temporary National Economic Committee, that in the United States from 1923 to 1929, individuals' savings flowing into savings institutions, with the flow of savings through demand deposits and through investment trusts, trustees and foundations, averaged from $5 to $6 billion per year. During the same years business enterprise invested in addition an average annual amount of $6.4 billion from funds accumulated from internal sources, i.e., retained earnings, plus allowances for depreciation and depletion. These two figures indicate an average annual amount of savings of about $12 billion, or about 16% of the average annual national income for this period of seven years. Likewise, for the decade from 1929 to 1938, inclusive, we are told by Simon Kuzets, an economist of the National Bureau of Economic Research, that the average annual net capital formation constituted only 3% of the national income, the lowest percentage in any previous period.

Now, it is quite evident that to obtain adequate and accurate data to arrive at these far-reaching estimates is extremely difficult and perplexing. Even with the elaborate statistics of earnings, savings, investment and other economic phenomena which may now be available, the problem is still beyond human calculation. No single investigator or corps of investigators are capable of doing the work. Since the nature of earnings, the constitution of savings, and the publicity or registration of actual savings and investments have not yet been firmly conceived or established in economic science, there is still no adequate basis for their calculation. They are as yet unmeasurable phenomena, conceived in the minds of men, but having no fixed physical form or composition. Who knows when an individual makes an investment? When does wealth actually become capital? What is the basis or the method of calculating income? These questions have never been satisfactorily answered, and one should not be accused of statistical or economic agnosticism, if he calls attention to these matters.

The nature of capital itself is still very much in doubt, despite the fact that it is defined and even fully explained in every textbook on economics. The most renowned of living American economists, Prof. Irving Fisher, four decades ago wrote an elaborate philosophical and mathematical treatise on the subject, entitled "The Nature of Capital and Income," but he does not conclusively furnish a definite or universally accepted concept of these economic terms. He defines "Capital," briefly as "*a stock of wealth* existing at an instant of time" and "income," he says is "a flow of service through a period of time." He illustrates these definitions by explaining that "a dwelling house is capital" and "the shelter it affords is income." Yet, if the concept of capital is wealth dedicated to the production of further wealth, a house may not be capital, and if its use furnishes no monetary returns, according to the common accounting concept, it is not considered as income. Certainly, neither the house nor the enjoyment thereof, would appear in the tabulations of capital investment or earnings used by present day statisticians in their calculations of the totals which private research organizations and the various Government bureaus are almost continuously serving as statistical diet to the public.

The confusion of the concept of capital must be cleared up, before the elaborate computations of its amount and its growth can be relied upon as accurate data on which to base administrative policy, or as an indication of economic or industrial trends. The British economist, Massau W. Senior, who was highly respected in his day, though he seems to have preferred social advancement to scientific economics, wrote rather pessimistically a half-century ago that "Capital has been so variously defined it may be doubtful whether it has any generally received meaning." Since Senior's time, hundreds, and perhaps even thousands of economists have expounded on the nature of capital without coming to a generally accepted meaning. In fact, some prominent writers, such as the German Roscher, and the famous English economist, Alfred Marshal, have revised the definition of capital in successive editions of their textbooks.

Discretion in Use of Statistics

If this is the situation, should there not be more discreetness in the preparation and use of statements made regarding percentages of capital formation and capital growth. These items are given in definite figures with dollar signs, as if they appeared in books of account or were tabulated from exact records. It is expected that they are to be used as *prima facie* evidence. Yet, without going into a technical argument regarding the inadequacy and inaccuracy of data, they are to a considerable extent, mere statistical exercises. Any reliance upon them as a guide to economic trends or as a guage of economic phenomena may lead to serious mistakes.

With respect to capital formation and capital growth, the collators of statistical data generally neglect a fundamental concept. This concept is that capital is not so much a physical phenomenon, measured in terms of the dollar sign, as the use that is made of it. It is not surprising therefore that some economists, notably Henry Dunning McLeod, argued that credit constitutes capital, and a nation's total capital consists of not only its material wealth used in production but also existing indebtedness. More than a half-century before McLeod wrote his voluminous analysis of credit David Ricardo was asked by a Parliamentary investigating committee whether he regarded credit as a form of capital. To this query, Ricardo replied: "Credit is a means which is alternately transferred from one to another, to make use of capital actually existing: it does not create capital; it determines only by whom that capital is to be employed."

By using the word "employed" Ricardo placed a limitation of the capital concept. Because capital is wealth that is productively employed, its use and employment is even more important to human welfare than its mere existence, and if credit (as it actually does) intensifies and improves capital use, credit in this sense, may be said to be the same as an addition to both capital and purchasing power. It is for this reason that investment and savings must be distinguished, and Lord Keynes may be right in holding that a proper relationship between saving and investment is so essential to a stable and prosperous economy.

Consideration of Quality as Well as Quantity Essential

Yet, if varying volume of credit has the same effect on prosperity as capital accumulation, its *quality* as well as its quantity must be considered if any statistical analysis is to be infallible. Misdirected and unproductive credit is as useless so far as human welfare is concerned as wealth not employed as capital

But has the statistician or analyst any means of measuring the quality of credit? The quality control of credit is the most difficult of all economic controls. Because of its importance, it has been undertaken in this and other industrial nations However, not with a great deal of success. Great Britain is about to launch a new and permanent scheme of bureaucratic credit control, but, as I pointed out in the "Chronicle," in the issue of Feb. 14, it is faced not only with difficulties but is likely to be perverted from economic to political objectives, and ultimately fail in its purpose.

Hansen-Terborgh Controversy

Today, there is a bitter controversy raging between two schools of thought regarding the accumulation of capital and its productive use. One school, represented by Prof. Alvin Hansen, of Harvard University, holds that because the nation is reaching a "mature economy," is not accumulating more capital and has no new frontiers, the main incentive for investment and other forms of credit expansion, as well as capital growth, is removed, and this explains the depression that occurred in the prewar years. The opposite school of thought has as its chief protagonist, Dr. George Terborgh, author of "The Bogey of Economic Maturity." The arguments of the two economists are summarized in the current issue of the Harvard "Review of Economic Statistics" by Prof. David McCord Wright as follows:

"Hansen: Decline in population growth removes an important outlet for investment and helps explain the stagnation of the Thirties.

"Terborgh: Percentage decline in growth rates began 70 years ago; why does it trouble us only now? Also, a greater proportion of old people means increased consumption.

"Hansen: The frontier has disappeared.

"Terborgh: That happened 50 years ago; there may be a new foreign trade frontier.

"Hansen: Great new industries don't seem to be in prospect and those we have tend to be capital saving.

"Terborgh: The capital saving idea is incorrect; great new industries have 'only' absorbed about 16%, on average, of gross capital formation and are unpredictable.

"Hansen: Internal funds are becoming more important for financing; expansion is possible through replacement funds alone.

"Terborgh: At the beginning of economic maturity, replacement is in excess of provision for capital consumption; corporations are largely self-financing only in good times; there still remains uncorporate enterprise.

"Hansen: Once past the postwar boom, ex ante savings probably will exceed offsets.

"Terborgh: Possible savings is exaggerated by general averages; offsets are unpredictable; they would increase if we gave capitalism a chance."

Professor Hansen, as is quite widely known, advocates artificial stimulants to expansion of capital growth, and was a leading inciter to the New Deal policies. He was until recently an economic advisor to the Federal Reserve Board. In line with Lord Keynes' theories, he would increase government spending to offset the stagnation arising from impeded capital accumulation and in this way combat the effects of business depression. In his view, the automatic forces making for investment outlets have declined since World War I and this has led to the nation attempting to maintain its prosperity by investing half of its saving abroad—a policy, which, he holds, is not easy or appropriate for this country to follow. He therefore proposes new internal developments like the Tennessee Valley and Missouri Valley authorities and similar projects to find new outlets for investment and expansion.

Now it is obvious, if we had adequate and accurate data, or if such data could be obtained, there would be little ground for this controversy. At least, both parties could agree as to the facts, which they do not. The growth of physical assets and the flow of investment — and what is more important, the productiveness of capital—are still to a large degree unascertainable phenomena.

This essay is written not with a view to discouraging statistical research in economics. Such research is laudable and may be worth the time and expense required by it. It is merely a protest against making calculations on the basis of incomplete and, in many cases, inaccurate and erroneous data and using the data as a basis of administrative policy and economic controls. The economic statistician or analyst has not the same exact and ascertained material to work with as the physicist. He cannot isolate his data and remove qualitative and disturbing differences in his units of measurement. Yet, this is attempted today on a large scale and on the basis of these attempts, we are asked to rely on the results presented and shape our policies accordingly.

Francis I. duPont Eleventh NYC Branch

Francis I. duPont & Co., members of the New York Stock Exchange, announce the opening of a new branch office at 201 West Seventy-second Street, with Herman Keller as manager. The new office, the firm's eleventh in New York City, will offer midtown investors complete facilities, with personalized service for each client.

The firm, with main offices at One Wall Street, is also a member of the New York Curb Exchange and leading commodity exchanges.

W. C. Dick V.-P. of E. F. Gillespie

E. F. Gillespie & Co., Inc., 67 Wall Street, New York City announces that W. Carson Dick has been elected Vice President of the company. Mr. Dick is in charge of the new business department.

Canadian Securities

By BRUCE WILLIAMS

It is an immutable fact that unless whatever is spent is earned the economy as a whole must suffer. The "Alberta Bill of Rights Act" makes a plausible attempt to offer something for nothing but it will have tragic consequences for the Province of Alberta if ever it is implemented. Apart from the impossibility of estimating the total assets of the Province what will be the attitude of the producers and would-be producers? What incentive will there be to create wealth if it is to be gratuitously dissipated to provide a dole for all and sundry within the Province?

One unpleasing feature of this situation is the complacency with which this fantastic proposition has been received. The potential objectors to the scheme have been lulled into a sense of false security by the insidious delayed action policy of the social credit zealots. The party has been in power so long without exhibition of its real intent that its menace has been dismissed with an attitude of somewhat amused contempt.

Another attitude adopted is that Premier Manning has insincerely introduced the bill with the conviction that his plan will never be put into practice. If this is so and political pressure is such that he is obliged to take such a strong stand to placate his extremist followers, the inherent dangers of the situation are all the greater.

The Social Credit party has given the Province good government over a period of years and has thereby gained sufficient prestige to sway the moderate elements in the Province. There is little doubt that the provincial courts, and certainly the Federal Government, will bar any tampering with the currency, but thwarted from directly attaining the main objectives, the party fanatics will be encouraged to employ indirect methods to reach their goal.

It is to be hoped therefore that the initial round will not be complacently conceded with the idea that the scheme will be ultimately defeated. The poor credit standing of Alberta during the past decade has been detrimental to the progress of the whole of Western Canada. Today when the finances of the province, largely through outside assistance, have been placed on a sound footing, the prospects for the proper development of this area of tremendous virgin resources are jeopardized by political recklessness.

Foreign capital, impressed by the apparent increasingly conservative outlook of the Social Credit party over the past few years, has been encouraged to enter the Province, notably for the development of promising oil deposits. Without such outside assistance the tremendous natural wealth of Alberta will never be fully exploited. It is only necessary to regard the housing situation in Alberta during the last decade to realize that political influences have been a deterrent even to local capital.

Happily Canada is a virile young country and her people are noted for their sound commonsense. The people who linked the Atlantic with the Pacific by the vast Canadian Pacific Railroad system when the population was a mere 3½ millions — whose thinly spread prairie farmers have contributed such a disproportionate share in feeding the world — whose few hardy pioneers have wrested from the inhospitable wilderness of the Laurentian shield its vast riches of mine and forest—such people do not accept lightly socialistic doctrines when the reward for endeavor is so high.

During the past week the high grade externals held firm but activity was at a very low ebb. Albertas again receded slightly on a considerably reduced turnover and Saskatchewans were inclined to ease in sympathy. The internal section was also quiet and prices were a shade off their recent peak level. Free funds were firm at 9⅛%, and were largely influenced by security operations.

With regard to future prospects little change is to be foreseen in the high grade section but the recent reaction in Albertas and Saskatchewans is likely to continue.

Financial Facts and Fancies

(Continued from first page)

the banks buy Government bonds on the basis of a market which they have made by their previous buying of Government bonds.

With that as a starter, I have some general observations. You know that in 1929 that process of bank lending developed a money supply in this country of $55 billions. You know that the process of treasury sales of Government bonds to the banks during the last few years, of bank buying of Government bonds on the market, and of bank buying of other bonds have produced a money supply in this country today of about $185 billions.

That at once raises the question, have we too much money, and then, of course, the question, how much money is enough?

Is There Too Much Money?

Now, I know that even in this distinguished group of experts, if we speak individually, nobody ever has too much money, but I am not asking the question from the individual's point of view—that is, the individual's immediate point of view—but rather from his interest in the public welfare. How much money is enough from the point of view of the public welfare? I think you experts would probably use different phraseology. You would probably make a very polite talk on the quantity theory of money.

I am not and I do not pretend to be an expert in this field. As I have often said, an expert is an ordinary guy, far away from home, and I never get very far away from home.

I realize it is dangerous going into a group of this kind on a subject which is confusing to the point of bewilderment, and I mean, the subject of money. My thesis is that with $185 billions of money, we have too much money from many points of view. That $185 billions is made up of about $28 billions of money in circulation, and the balance of more than $155 billions of bank deposits, various kinds of bank deposits, but all of them subject to draft by somebody at some time, either immediate or within a short space of time.

That increase in the amount of the country's money supply since 1929 from $55 billions to $185 billions ought to answer most of the questions with which we investors have had to deal in the intervening years.

Who would not have known that bond yields were going down and prices going up when there was the constant increase in the amount of money available in the community and, demanding among other things, opportunities for investment.

You can look back now and, I think agree that you could have paid a higher price for most any one of those issues in last few years for which Halsey, Stuart & Co. paid what we then thought was too much, and held on to them for a few months, as Halsey Stuart did, if you could afford it, and you would within a few months have sold those securities at a still higher price because in those intervening months the money supply was mounting higher and higher, and more and more of it seeking something for investment.

It is arithmetic, not statistics, that has been involved. The only trouble was that it was hard for all of us to see very far ahead, and we knew that the facts would depend upon some other factors like politics, and we were not too sure that the process would continue as it was then developing.

Source of Surplus Money

How did we get all of this money? I think it is pretty generally agreed now that we got it through the Treasury selling too many of its bonds to the banks, and every time it sold its bonds to the banks the bank deposits of the country and the resulting money supply was increased by the par value of the bonds sold. We also got some of it after the Treasury ceased to sell directly to the banks,—which was much later, by the way, than the general public thinks,—through the banks going out on the market and buying Government bonds, which increased bank deposits and the money supply just the same as if the banks had bought the bonds directly from the Treasury.

And then with the accumulated funds which flowed into the banks as the result of this increase in money, the banks sought more and other opportunities for investment and for earnings, and they bought either directly from corporate issuers or on the market corporate bonds, which likewise increased bank deposits and the money supply.

I hope we all understand, as Governor Eccles suggested the other day that we ought to understand, that the use of bank reserves to buy Government bonds, corporate bonds or almost any other damned thing, results in an increase in bank deposits and in what we call the money supply.

I wonder sometimes whether those of you who are connected with banks enjoy the opportunity and the responsibility of consulting with your superior officers at the moment when they are considering transactions, loans or the purchase of securities on the market which have this effect of increasing bank deposits and money supply. I wonder sometimes whether any considerable percentage of bank administrators themselves understand what Mr. Eccles said he thought the people of the country ought better to understand when the bankers make loans or decide to buy bonds on the market. They certainly have to take into consideration to some extent the effect on their liquidity and solvency as bankers have always done on such occasions, though I suspect they do not have to take quite so much concern about the effect on their liquidity since the banking legislation of the early New Deal days, which makes any old cat or dog in a bank portfolio eligible for the Federal Reserve, but they must give some concern to liquidity and to solvency.

Situation of the Banks

Do they also or should they give some concern to the question whether these loans they are making or these securities they are buying will go on increasing the money supply to the point where maybe it will not be so good for the public welfare, including the banks who have made the contribution to this increase in our money supply? In 1928 and 1929, when the banks were making huge loans, demand loans, street loans, they had to give consideration to their liquidity as affected by those loans, but did they also give consideration to the possible effect of the mounting increases in bank deposits and money supply? When the effect of that huge increase to $55 billions at that time came along, the banks suffered as did everybody else. Will the banks suffer as will everybody else when the effect comes along of this excessive, as

Toronto Mines Finance Co.

TORONTO, ONT., CANADA—Toronto Mines Finance, Ltd., has been formed with offices at 25 King Street, West. Officers are John St. Clair Dickson, President; William S. Morlock, Vice-President; William B. Malone, Secretary and Treasurer; and Alan C. Kilgour, Assistant Secretary and Assistant Treasurer. Mr. Dickson for the past ten years has been a partner of Dickson, Jolliffe & Co. of Toronto.

Canada to Cancel Debt Owed by Britain

Canada plans to cancel the debt of $425,000,000 incurred by the United Kingdom under the Commonwealth Air Training Program, according to the March 22 business summary of the Bank of Montreal. It is stated that a supplementary agreement, covering unsettled claims arising from the war efforts of the two nations, provides that the United Kingdom will pay the Dominion $150,000,000 and will cancel all its claims against Canada outstanding as of Feb. 28, the bank reports. The Dominion of Canada will reciprocate by cancelling all of the outstanding claims against the United Kingdom not otherwise dealt with, including the cost of food and other supplies delivered to Britain between V-J Day and the end of February.

By recently granting a credit of $1,250,000,000, the bank points out, Canada brings the total of her financial aid to the United Kingdom to more than $5,000,000,000. Included in this are the outright gift of $1,000,000,000 made in 1942 and approximately $2,000,000,000 given in the form of mutual aid since that time.

I view it, increase in our money supply?

It is not yet ended. You know that the Government is not now selling bonds but bank deposits are going up, and it is because the banks are buying on the market either Government bonds or corporate bonds. Only the other day a big industrial corporation, bypassing the investment bankers as they sometimes do these days, coming to the life insurance companies directly, sought a 15 or 18-year loan, and we made them the best terms that we thought we could possibly justify, but they shook their heads and said, "No. The banks will make us the loan for 10 years at 1¾."

That was too rich for us. Why it was not too rich for the banks, we do not yet know. But, when the officers of that company said to us, "There isn't any hurry about it. We can let the matter ride." We said, "Oh, no, we advise you to go get that money quickly. This money that we offer you is experienced money. It has been around. It has been in the business world. It will stick. But this money you are going to get from the banks is newly created money. It is coming right out of chaos, invited into this world by the banks. It has had no experience. It has not been around. You don't know what may happen. Of course, it is all the same kind of money after it gets here. But just suppose somebody closes the gate from chaos before you get that new money."

Well, the gate is still wide open, but I am only emphasizing the fact that the new money is still being created by the banks. If you have any doubt about the reason for booms in real estate or even baby booms as yet on the stock market, and low interest yields on bonds, well, you just take it from me, the answer is that huge supply of money being constantly called out of chaos by banking operations.

Patriotism and Prudence

I do not mean to be critical of the bankers. They certainly had to finance the Treasury's operations during the war, and the most important source of all this supply of money is, of course, the Federal deficit. If more money had been raised by taxation, there would not have been such a big money supply at the end of the war. If more of the money borrowed had been secured from those who had pre-existing money, that is, the people and their savings institutions, there would not have been so big a supply of money at the end of the war.

I know it was patriotic to support the Government's issues, but all through the war on many occasions when I had the honor and the responsibility of advising with Treasury officials, I took the position that it was just as patriotic to insist that the war be financed soundly as it was to help finance it. You know that a comparatively small percentage of the funds existing in the community were used for financing the Treasury's needs during the war, and a very large volume came from the banks, and the expansion of bank credit and of the money supply resulted.

You know that there are at least two large blocks of Government bonds outstanding that were bought and sold under the impression that money was being put into them during the war to be used promptly after the war, either to buy things that were not available during the war in the case of individuals, or to finance business expansion immediately after the war in case of corporations. You know that there are at least $50 billions of those two holdings that are going to come on the market at some time in the near future, and when they are financed, who is going to provide the funds? Is that going to result in a further expansion of bank credit, of bank deposits and of money supply?

You know, too, that while many of the big corporations have pretty well supplied themselves with liquid funds for the immediate postwar period, there are a lot of small businesses that are not so supplied. There will be a lot of new businesses, too, that will want bank funds, and those very proper provisions of bank funds for small businesses and new businesses must still further increase bank deposits and the money supply.

Danger of Further Money Increase

So, the question is not merely how are we going to reduce what I choose to call an excessive money supply, but how are we going to prevent it growing much larger? Again I ask, how much money is enough? How much money do you want? I mean for the use of the community. Do you want the whole national wealth to be turned into liquid form? That is, do you want as much money as there is national wealth? Do you want as much money as there is debt, government, corporate, and private, or do you want only as much money as there is government debt?

Mr. Eccles said the other day that the monetizing of the debt should stop. I think he had in mind the monetizing of the Federal debt. Now, as I have said to you, that is just another of these poetic or technical phrases to describe the very simple transaction of putting debt in the banks, whereupon the amount of the debt is added to the money supply. That is what I have at last come to realize is the meaning of monetizing the debt.

If we monetize more and more of the Federal debt, we all agree that we flood the country with more and more money. What is to prevent the banks going on the market and buying up all the Federal debt and monetizing it, and having monetized the Federal debt, perhaps they will go on the market and buy up all the corporate bonds and monetize that debt, too, and then why not go on the market and buy all the mortgage debt and monetize that, also, and liquify everything in the form of wealth?

German Monetary Experience After World War I

Some of you analysts, I think, would enjoy what I was not able to do to my own satisfaction; that is, go back into the German bank reports and periodicals of 1919 and 1920. The first job I ever had for the Equitable was in 1920, a big innocent just out of the academic world, when I went to Europe for the Equitable and was in Berlin in July of 1920. Nobody else wanted the job. It was a blind alley. Every vice-president of the Equitable that had ever gone into the foreign business had gone off the dock in some way or other. So nobody wanted the job, and they wished it on me. It turned out to be the best job in the Equitable, and that is why I am here.

I remember very well walking into the offices of the German bankers in July of 1920. They were rubbing their hands and smacking their lips over their huge increases in bank deposits. In 1921, they were pointing their fingers to their still further increased bank deposits, but they were not rubbing their hands, and they were not smacking their lips, and in 1922, of course, you know everything blew loose.

Responsibility of Banks

Some of you must be familiar with that atmosphere in the English language and the American banks, with similar increases in bank deposits looked upon with a certain amount of pride and enthusiasm.

"What are we going to do with the money," a Philadelphia banker said to me the other day. "We must have earnings."

"Well," I said, "I have some banking responsibilities myself and I like to see the banks have earnings, but I do not like to see the banks have earnings at the expense of the soundness of the currency of this country for which they are primarily responsible."

Who is going to take care of the soundness of our currency if the bankers do not? You cannot expect the politicians to do it. You cannot expect the people themselves to say, "We have too much money and we want to get this money supply down." And you cannot expect their public representatives to do it, at least, not until the bankers provide the leadership and point out the necessity from the point of view of the public welfare of doing it.

Get Bonds out of the Banking System

It can be done, but it is a harder job than it would have been to sell more of the Government bonds to finance the war to the people themselves during the war, because you are not going to get this huge money supply down until you can get the Government bonds and some other bonds out of the banking system.

How are you going to do that? Well, the Government can tax and pay them off. I am hearing you say, "That guy has never been in politics." Or, somebody can buy these bonds from the banking system. Who? You do not think for a minute that the life insurance companies are going to buy back the 2's of 1952-54 from banks that are paying 104 to 105 for them with a yield of one and a quarter or thereabouts? Who is going to buy those bonds back from the banking system except at a loss to the bankers? What is there in it for anyone? You say it is a riskless investment. The Government bond is just as good as the Government's taxing power during the next generation or two. That is all that stands behind the Government's promise, its taxing power.

More Taxes

It is all right with me. I lived in this grand old country before 1900. I will not be paying the taxes that are going to pay off this huge debt. You young fellows are going to take that on, and I sometimes shiver a little when it is urged upon me that the Government bond is riskless, and I have to think that its goodness depends on the taxes which this Government can collect from those who are the active money makers of this country in 20, or 30 years from now. Are they going to be willing to pay the taxes necessary to do what then has to be done currently, and, in addition, pay the taxes necessary to pay off the huge debt that we have created and liquidate the financial situation that we have developed?

I often wonder why we are so fearful of making use of the taxing power now and yet seem to believe that it can be used on our sons and grandsons in the coming generation.

You are as good a judge of that as I am, and better probably, because you are analysts, and that means, if you are successful analysts, that you are a good deal poetic and a little prophetic.

I sometimes wonder what would happen if the Equitable Life Assurance Society sold a good big block of its 2's of 52-54 at a 5-point profit, and thereby put in the till two and a half years' interest, and let the money stay in the bank or in the vault. You know, it is said of the old Equitable, from whom we got our name, that it would have been better off in 1917 if it had accumulated its cash between 1895 and 1917 and left it in the vault instead of buying Government consols during that period, which means that the Government consol market value in 1917 plus all the interest that had been received in the intervening years was less than the amount of cash that the company had paid for the consols.

That could happen again. Maybe it would not be such a bad idea to follow the advice of one of your houses not very long ago to put your cash away rather than take a return of 2.8,—and that is high now—and pay 50% income taxes and run the risk of having your capital decreased in the period of five of six years.

We do not all see these things the same way. That is fortunate. That is what makes business opportunities for us.

Just before I left the office, I was handed these figures. While we were buying those railroad bonds, to which your Chairman has referred another important insurance institution was selling railroad bonds. Here are five items sold during 1941 of a par value of $26 millions. The prices received for the sale of these bonds, none of which defaulted, were just $11 millions less than the present market value.

We have been fortunate enough on those railroad purchases that we made to have just the opposite experience. We realize there is a little bit of luck in investment, even if it is done on the advice of analysts, and we have had some of it.

Value of Investment Analysis

There are many phases of the investment problem which we all face. We need not merely statistical information, that is history. We need to know the present and its trends and we need to analyze to some extent the future. That's why I say you analysts should have a little of the prophet in you. For example, when we made that investment in public utilities to which your Chairman referred a few moments ago, it was the result of some statistical analysis and a good deal of legal analysis. As the result of both we came to the conclusion that the bonds of the generating and distributing companies would be good even though the holding companies might be affected by the death sentence legislation.

When later on we bought railroad bonds it was likewise the result of legal analysis as well as statistical. Indeed, it was rather more legal than statistical. When we considered making those railroad investments we were faced with the possibility that the underlying lien of the first-mortgage bond might not retain its legal priority but might suffer from being merged with subordinate securities in a common pot as in the case of municipal issues. After examining the legal situation we came to the conclusion that the courts would sustain the priority of the underlying bonds and they did.

We guessed right, and, therefore, invesments at a time of panicky selling of underlying first mortgage railroad bonds was a good investment, and it has turned out very beneficial to the policyholders of our institution.

Production Will Not Reduce Money Supply

In making up your minds as to what to do for the future, I think you can see very clearly that the dominating factor in my mind is the supply of money. It was reduced after 1929 by the call of loans in foreclosures. You cannot call the United States Government bonds and you cannot foreclose. The supply of money which has been provided by deficit financing cannot be wiped away as it was in the early 1930's. It cannot be wiped away by production. Production is eminently desirable, but production and the sale of automobiles and washing machines and refrigerators will move the money around, but it will still be there.

(Continued on page 1650)

"Our Reporter on Governments"

By JOHN T. CHIPPENDALE, JR.

With maturities up to 1951 giving ground, the firming of short-term rates is being felt in the Government securities markets. . . . The higher return available in certificates has resulted in price declines in notes and bonds due within the next five years. . . . Aside from downward price adjustments in the shorter maturities and all of the partially exempts, the Government markets have been quite stable, with changes in the longer-term issues confined largely to fairly narrow limits. . . . There has been good buying recently in the 2¼s due 1956/59 and this bond was run up about 8/32nds last week, largely as a result of one fairly substantial institutional buy order.

This issue becomes bank eligible on Sept. 15 and because of the scarcity of intermediate-term issues that the commercial banks will be able to buy, there is accumulation of this obligation by institutions which believe that this bond has very good short-term appreciation possibilities. . . .

SHORT-TERM RATE ADVANCE INDICATED

It seems as though the trend toward somewhat higher short-term interest rates indicates an agreement between the Treasury and Federal on a credit policy which may have important consequences in the money market. . . . By a moderate increase in short-term rates, the pressure will be relieved on intermediate-term obligations. . . . There will, however, be no increase in the coupon rate of short-term issues. . . . By keeping offerings of long-term obligations scarce, there will be no increase in long-term interest rates; in fact there may even be a further decline in this rate, if the monetary authorities desire it. . . .

With no increase in the cost of short-term money, and long-term funds on a 2.25% basis or lower, the Treasury, by its cash payment of part of the debt, will continue to keep the debt burden bearable since the cost of carrying the debt will not be allowed to increase. . . .

EXCESS RESERVES

It is also indicated that the monetary authorities are going to bring excess reserves of the banking system down to levels where the member banks will not have too large amounts of surplus funds to put in the market. . . . This will take some of the pressure of bank buying from the outstanding obligations and thus prevent an increase in bank credit and deposits. . . .

By limiting the resources of the commercial banks available for investment, it is believed that the deposit institutions will concentrate these funds more largely in certificates of indebtedness because of the satisfactory return, shorter maturity, small premium, if any, and the practical immunity to risk of price fluctuations. . . .

MARKET RESPONSE AWAITED

Whether there will be selling of the 1952 and longer maturities of bank eligible issues will probably depend upon the reaction of insurance companies and savings banks to changed credit conditions and their preparations for new offerings of bonds. . . . It may be that insurance companies and savings banks will sell some of the bank eligible bonds at present high prices and reinvest part of the proceeds in certificates and part in long-term restricted obligations. . . . It is indicated that when new issues of long-term bonds are offered to institutional investors in the future, there will be restrictions on the purchasers. It is believed that they may be informed that if there should be selling of bank eligible bonds to pay for the new money obligations then subscriptions will be sharply curtailed, or even eliminated entirely. . . .

Therefore, in order to be in a position to take on sizeable amounts of these new securities when they are available, without selling bank eligible obligations, the savings banks and insurance companies may now do some eliminating of eligible issues, and reinvest the proceeds in short-term securities. . . .

Then when the new bonds are being offered these institutions will be able to buy substantial amounts of them and will use the funds obtained from maturities of short-term investments to pay for part of this commitment. . . . It may be that selling of bank eligible issues in anticipation of new offerings will cause some weakness in bank eligible obligations. . . .

ANOTHER POTENTIALITY

There seems to be considerable discussion about the elimination of the pegged rate for Treasury bills, and the effect this might have on the money markets. . . . It is quite obvious that if the fixed buying rate of Federal were taken out of the market, the bill rate would go to at least ½ of 1%. . . . A rate of ½% would be in line with a ⅞% rate for certificates. . . . This would be another factor in the firming of short-term interest rates. . . . Treasury bills are held principally by the Federal Reserve Banks, and an increase in the bill rate would have the greatest effect on the Central Banks. It would help the earnings of these institutions. . . . It does not seem as though an increase in the bill rate would result in a decrease in excess reserves. . . .

The excess reserves of the banking system are held largely by the country banks, and these institutions and their customers are not very much interested in the ⅞% certificates of indebtedness, not to mention the lower yielding Treasury bills. . . .

A higher bill rate would only tighten money rates in the large financial centers and would have practically no effect on medium or long-term rates. . . .

NO DEPOSIT GAINS EXPECTED

Because of the debt retirement program of the Government and changed economic conditions, it is not believed that deposits of commercial banks will increase very much during 1946. . . . This is a revised opinion since it had been expected that bank deposits would show fairly sizeable growth for the year. . . . It is believed that the return flow of currency from circulation will be smaller than was previously anticipated, due to:

(a) Higher wages.
(b) Higher prices.
(c) 1946 is expected to be a great tourist year.
(d) Black market operations.

Higher wage payments and higher prices for commodities and finished goods will mean more currency in circulation, while tourist expenditures and black market operations will mean that the use of currency will be large and the return flow will not be as fast as was expected. . . .

The slower return of currency from circulation will mean that the increase in bank deposits this year will be less than had been forecast. . . . Newly mined gold coming to the United States will not be too substantial. . . . All decreases in loans to brokers, dealers and others will most likely offset the increase in commercial loans. . . .

Financial Facts and Fancies

(Continued from page 1649)

This money supply is going to be roaming around the country until, by taxation on the part of the Government, or by purchase on the part of the non-banking community, this great volume of Government bonds particularly, and also other bonds now in the banking system is taken out of the banking system.

I would like to call your attention to the fact that not only is it true that war production is subject to destruction, but also it is true that the money created to pay for war production survives its original use and stalks through the community even after the production has been destroyed.

There is plenty of this $185 billions of money supply today which was created to pay for wages and materials used to build carriers and other implements of war, which served their purpose, have been destroyed, but the money created to pay for them survived its original use by the Government and still stalks through the community.

If you think that not only is it going to be difficult to reduce the volume of our money supply, but also that it is likely to be increased by some of the reasons that I have suggested here today, well, you do not need much more analysis to decide most of the questions that are uppermost in your minds in the investment world.

Effect of Low Interest Rates

I will not risk giving you any advice. I simply state that the interest rate from which life insurance companies and their policyholders and all other investors and all thrifty people in the country are suffering is due to the money supply and the artifical means by which it has been created. It is the thrifty, hard-working people who suffer. It is only the thrifty who put aside some part of the results of their present labor for some future use. The ne'er-do-well does not suffer by low-interest rates. He spends all the money he gets his hands on and does not put any of it away.

The Treasury policy, says the Secretary of the Treasury and the President himself, will continue to emphasize low interest rates because of its great value to the people of the country.

Is the low interest rate of value to the people of the country? It is of no value to the thrifty saving people of the country who provide the capital that makes one generation a little better than the previous one.

As I said the other day, to another group like this, the low interest rate is one of the reasons why the veterans coming home have the privilege and advantage of paying $10,000 for a $5,000 house. That is what the low-interest rate does.

I know you all say, "Oh, he is an insurance investment man and he is feeling the pinch of the lower rates and he hopes there will be a turn." Yes, I hope there will be a turn, but not for the life insurance company's benefit; rather for the benefit of the general welfare of this country, now, and for the next twenty or thirty years. I am not one of those who wants the United States Government to create debt on any terms or at any rate in order that banks or life insurance companies will have something to invest in. I would rather see the debt of the United States wiped out entirely; we will find something else to invest in. As a matter of fact, we in the Equitable have invested in non-Government obligations on which we can live to the tune of about $125 or $130 millions since the first of this year; and if the financial and monetary situation in this country were put on a sound basis, the expansion of business that would go on in this country very promptly would very quickly provide us with satisfactory and sound investments for life insurance money.

What possible public policy can any representative of the people accept as satisfactory if it conflicts with the best interests of the 65 million policyholders of the life insurance companies and all other thrifty citizens. From the point of view of the corporate entity alone there are some consoling incidents of the low-interest rate. While our net interest earned last year up at the Equitable went down to about 2.82% of our total assets, our profits realized and in the till exceeded $51 millions. Therefore, I am not pleading for the life insurance institutions. I am pleading for the policyholders of life insurance institutions who will have to pay more net for their insurance if the interest rate continues to go down. We can administer the life insurance institutions in any atmosphere that I have yet admitted to be likely.

Everything Depends on Treasury Policy

This money matter is an exceedingly confusing and difficult subject involving many corporate and private interests, and especially involving the welfare of the entire country. The experts say that everything depends on Treasury policy. What is Treasury policy? The Treasury has only one policy, and that is a low and lower interest rate, and who makes Treasury policy? When Congress took us off the gold standard in 1933, it turned over, in fact, to the Treasury experts, the making of Treasury policy affecting the value of every dollar in your pockets today. It is the Treasury experts who make current Treasury policy, and who are they? I do not know, and I will bet you do not know. You certainly would not accuse the Secretary of the Treasury of making those policies. The Federal Reserve Board has a great responsibility, and it has indicated its recognition of the danger confronting us, but it has not acted to control Treasury policy.

Responsibility of Congress

The time has come for Congress to take back the making of Treasury policy and all Government policy with respect to this matter of monetary soundness and money supply, because everything that you do and everything that I do depends upon it.

My life is a failure if the purchasing value of the dollar in which the Equitable policies are paid decreases to the point where the policyholder and his beneficiaries cannot possibly get the things for which he bought those policies. I have given 25 years of my life to administer the Equitable, a great semi-public institution, and I am proud of every minute that I have spent in that job, but it is utter failure for me, notwithstanding many good results, if this process of monetizing debt goes on to the point of creating a money supply which destroys the purchasing value of the dollar.

So I say the time has come for Congress to appoint a Monetary Commission of men of experience in Congress and in the business and banking world to do what was done in 1912, that is, examine the whole banking, debt and monetary situation, so that Congress can deal intelligently and quickly with the subject.

Annual Meeting of Pittsburgh Bond Club

PITTSBURGH, PA.—The annual business meeting and election of officers will be held in the East Room of the Roosevelt Hotel at 5 p.m. today, March 28, 1946. The proposed amendments to the by-laws wil be voted on at this meeting, and in addition members will consider the question of the Bond Club of Pittsburgh becoming affiliated with and its members becoming members of the National Security Traders Association. The latter question was discussed at a special meeting on March 15, but carried over until the annual meeting because of lack of time.

A cocktail bar will be set up in the Gold Room beginning at 6:15 p.m. at the members' expense.

There will be a charge of $5.00 for guests at dinner.

Arrangements have been made for cards, etc., in the East Room after dinner.

The Nominating Committee consisting of J. Ray Baldridge, Chairman; Owen Kraft, T. O. Harris, Harry Steele, and Thomas O'D. Murray presents the following members for the coming year.

Officers: S. W. Steinecke, S. K. Cunningham & Co., President; Franklin Maroney, Blair & Co., Vice-President; Joseph Buffington, Jr., Mellon Securities Corp., Secretary; Bernard C. Kelley, Halsey, Stuart & Co., Treasurer.

Board of Governors: Robert C. Schmertz, Phillips, Schmertz & Co., one year term; John E. Friday, Mellon Securities Corp. and John Klima, R. H. Johnson & Co., two year terms.

Business Outlook and Trends

(Continued from page 1639)

back about four months as the result of strikes. It is to be hoped that a satisfactory formula may be found that will do away with this antiquated procedure and a fair method of settlement devised that will obviate the waste and losses that strikes entail. It would seem that in this enlightened age some procedure to avoid industrial conflict might be set up perhaps on the plan similar to that of the UNO, or something similar to the Swedish plan which has practically eliminated strikes.

Excellent Business Outlook

What is the business outlook for 1946 and 1947? The outlook is excellent. Let me tell you why. First let us consider the deferred demand for goods of all kinds.

At the end of 1941 there were nearly 28 million passenger cars on our highways. At the present time there are less than 23 million, practically all over four years of age, with most of them well past the normal prewar retirement age. We need to fill the urgent demand for five million cars that this gap represents in order to bring us up to prewar level. We must also replace cars that have been outworn, which represents an even greater number, and finally, we must meet the demand of the large number of persons who never owned a car but now want and can afford to buy one. By 1947 it is likely that the sales volume of automobiles and automotive equipment will be 75% greater than in 1939, at 1939 prices.

In the household appliance field we have similar shortages resulting from wornout mechanical refrigerators, washing machines, ironers, radios, vacuum cleaners, pianos and the like, with the demand made more acute as a result of the crop of new families that have been added since production ceased. It is estimated that the sales volume for 1947 will be over 67% above that of 1939.

In the apparel field we are short about 40 million men's and boys' suits, to say nothing of large quantities of women's, children's and infants' apparel.

Our shoe stores need 150 million pairs of shoes to fill the gaps on their shelves.

In the plastics field it is estimated that even if plants should work at capacity for the next two years the industry could not fill all the orders in sight.

The furniture and house furnishings industry is swamped with unfilled orders, with a prospective sales volume that will total nearly 50% greater by 1947 than in 1939.

Tobacco products, chemicals, electrical and non-electrical machinery, rubber products, stone, clay, and glass products, petroleum, coal, processed foods, printing and publishing, paper, textiles and lumber all look for substantial increases in sales volume running from 25 to 75% greater by 1947 than in 1939.

In the field of transportation equipment we have great quantities of unfilled and prospective orders. Our railroads are badly run down; locomotives, passenger cars and freight cars need to be replaced; road beds improved, bridges repaired or reconstructed. The strain on the present equipment has been unusually heavy, as illustrated right here in the city of New York in the number of passengers using the Pennsylvania Station. This number rose from 61 million in 1941 to over 109 million in 1945. Nor do I need to tell you of the rehabilitation job required in the motor transport, bus, subway, street car and shipbuilding fields. It is estimated that the sales volume of the transportation equipment industry will be 75% greater by 1947 than in 1939.

Construction Industry

And now we come to the greatest of all potential sources of business, the construction industry. Few if any industries suffered as much attrition during the war as civilian construction. It is estimated that it will take from eight to 10 years to fill our requirements in this field, including residential, industrial and commercial construction. We need four to five million residential units to fill our immediate urgent needs, of which two and one-half million are for veterans' use. The Borough of Brooklyn alone needs 30,000 new homes. As for commercial and industrial space, New York City is at this very moment short over three million square feet of space, and the rest of the state is short about six million square feet. To this must be added repair and rehabilitation of buildings in cities and farms, many of which have been sorely neglected during the depression years and war years. Construction programs of public buildings and highways must also be taken into consideration.

These construction projects represent a source of employment directly and indirectly for about 10% of our entire working force when in full operation.

During the war our capital goods on which our expansion depends was badly run down, 70% to 90% of our equipment being more than 10 years of age at the start of the war. Replacement has been at a low ebb during the past four years. It will take years to replace this wornout and obsolescent equipment.

The Pent-Up Purchasing Power

I have referred in some detail to the pent-up demand for various types of products now facing us. I should now like to speak of the purchasing power or income which is an important factor to be considered, since it along with shortages of goods is acting as a strong inflationary influence.

The American people saved during the war years some 135 billions of dollars, a sum greater than the entire national income during any year prior to 1942. Persons with annual incomes under $10,000 have accumulated savings equal to that of an entire single peacetime year. A substantial portion of this will be used to make important major purchases as soon as supplies become available.

However, when this urgent demand is ultimately satisfied, we may expect a self-sustaining period during which purchases will depend on the current incomes of our workers.

In the war years, incomes increased rapidly and the trend since then has been to keep them at a high level.

Six million families have moved up from the "under $1,000" bracket to the "$1,000-$2,000" bracket. Altogether, some 10,000,000 families have increased their incomes sufficiently to rise into higher income brackets. It is anticipated that in view of the prevailing high wages, about one-half of this number will continue to remain in their new higher income bracket, with the result that this group will become potential purchasers of goods for which it had not been in the market heretofore despite the increase in the cost of living. We are thus faced with a tremendous purchasing power that only another wave of strikes can reduce materially.

We see this new purchasing power exemplified in some of the new types of customers patronizing our exclusive shops all over the country. We notice it particularly in the City of New York in our Fifth Avenue and Madison Avenue shops, where working people who formerly patronized the popular-priced stores are now doing some of their important quality shopping.

The retail trade has for the third successive year reflected this surge of buying and uptrading. Dollar volume sales in 1945 exceeded those in 1944 by 10%, and the first two months of 1946 showed increases over the corresponding months of 1945 by about 15%. Never in our history have our retail merchants enjoyed such prosperity, nor have they been as liquid nor as free from failures as they are at the present time. From a check which I recently made in the Second U. S. Department of Commerce Region, I found evidence that would indicate retail sales for 1946 in this region would probably exceed those of the record-breaking year of 1945 by 10%, and with the availability of durable goods once more in sight with the settlement of our steel strike, this figure should be increased.

When Danger of Deflation Comes

This all adds up to prospective prosperity for the immediate years that lie ahead. But the time will come when our urgent wants are filled and our shelves are again restocked, and we will be faced with the danger of unemployment and deflation unless we use protective measures. To prevent this we will need among other things increased mass production through continued technological improvements, which in turn will decrease costs so that our lower income bracket families will be able to purchase products normally out of their reach. We saw this process well illustrated in the case of the radio, which came down from $200 to $20 or less per receiver, in the space of a few years, thus providing almost universal use.

Another way to avoid deflation will be to develop our distribution and advertising techniques to make more readily available and more acutely desirable the products which we have not been accustomed to using. Still another important way to avoid deflation and keep our wheels turning with resultant full employment will be to develop our foreign trade both in imports and exports, these being interdependent. I need not tell you of the enormous foreign markets that lie waiting for us both for consumer goods and capital equipment in the countries overseas. Before the war our exports were below three billion dollars per year. We will have to raise it to 10 billion dollars per year in the postwar period, thus providing employment directly and indirectly for an additional five million workers.

Foreign Trade Outlook

I recently returned from a joint military economic mission to the Far East at the invitation of the Secretary of War. I visited in addition to the islands in the Pacific, such as Hawaii, the Marshalls and Gilberts, the Marianas, Okinawa, such countries as the Philippines, Japan and China. I saw destruction that will take many years to reconstruct—buildings shattered, railways bombed out, ships lying on their sides, industries broken down into rubble and stores either closed down or with only a few things to sell. Except for lumber and some low-grade textiles, we will have demand for practically everything necessary in the reconstruction of these countries and in the filling of their stores. The same thing applies, I am told, in even greater degree to parts of Europe. Then, too, in the Far East nearly a billion people living under low standards may become prospective customers as their financial condition improves, because they are becoming indoctrinated with the idea that living conditions can be made easier through the use of modern goods and equipment even though these be of modest type. Have you thought what the use of kitchens to replace outdoor cooking would mean to our industries as well as in the improvement of the national health of the underprivileged persons in many foreign countries?

Of course the question arises at once how will these countries and these people be able to pay for the things they need? In the beginning these purchases may have to be financed through the credit facilities provided by the Bretton Woods program and the Export-Import Bank. We are, however, helping many countries to inventory their own resources both natural and human so that we can balance our exports eventually with their exports to us. We can use their oil, tea, coffee, olives, minerals, precious and semi-precious metals, hides, silk, lace, handicraft, and the like.

We need not be afraid of competition resulting from industrializing these countries. It has been our experience that the greater a foreign country becomes industrialized, the better customer it becomes, so long as it specializes in the material and products it is best qualified to produce. An excellent illustration is provided by Canada, which we helped to industrialize and it is today our best customer in this hemisphere. Indeed, Canada buys more goods from us than all the Latin countries put together.

Technological Progress Basis of Our Economy

You are all familiar with the basis of our sound national economy. It is constant technological improvements providing greater mass production at lower costs and the development of wider markets resulting in increased profits based on larger volume, rather than on higher prices. We cannot be satisfied with much of the traditional prewar policy of operating at two-thirds capacity as has been the custom too often with business and industry in the past.

In this full production, full employment program the United States Department of Commerce has a vital role. Secretary Wallace stated recently in an address in this city that "it is the department's job to promote business; to provide services that business can't provide for itself; to speak for business and government; and to work for a climate of public policy favorable to business expansion. The department's efforts have been and will continue to be devoted to advancing all legitimate competitive business interests."

It is with these general goals in mind that a plan has been developed for strengthening the program of the department. Under this plan, the department will undertake to provide:

1. Revitalized foreign trade promotion services.
2. Management aids, technological aids, marketing aids, and other forms of direct service for business.
3. Strengthening of the technical bureaus and offices of the department.
4. A strong, balanced program of current and "benchmark" statistics and a complete analytical program to give business and government current information on the economic situation and business outlook.

Securities Salesman's Corner

By JOHN DUTTON

Somebody Should Introduce Mr. Higgins to Mr. Kaiser

Andrew J. Higgins of New Orleans should meet Henry Kaiser and ask him a few questions. Both of these esteemed industrialists have been doing some public financing lately. This has necessitated contact and dealings with the SEC. The manner in which Mr. Kaiser's financing was expedited and cleared through the Commission, and the obstacles which Mr. Higgins had to face only a few months later, certainly is leaving a lot of people pretty high in the air.

One thing about Henry Kaiser, ever since the war started he has known on what side of the bread his butter was spread. Maybe Andy Higgins shouldn't have popped off on several occasions, in a manner not too complimentary concerning some of the present administration's labor policies. With Henry it has always been a practice to take all the government money he can get, government contracts ditto, raise wages (what's the difference if it's at government expense), and if not, do it anyway just as long as you are in right with the OPA and can get some brand new ceilings to cover the higher costs. Henry has spread the New Deal managed economy line, played ball with the Washington bureaucrats, and smiled, smiled, smiled. What Andy Higgins didn't know is that you can't get government contracts, government loans, and build a little two by four motor boat factory into a gigantic industry without continuing to be a good little boy; and if there were some things that you didn't like that the New Dealers were doing, you either kept quiet, or better still, said YAH! Anyway Henry got his money. If someone else had sold millions of dollars worth of stock in a company that had never made an automobile, and had nothing else in the shape of assets except a few blue prints, at the price of $10 a share; and a few months later had the temerity to double the dose at $20 a share, the chances are the SEC would have cracked down with enough charges to keep a thousand Philadelphia lawyers busy from that time forward until Henry finally produced an automobile.

It is common talk that certain underwriters who had the Higgins deal in the first place shouldn't have been so active in New Jersey politics. After all you can't get very far in politics, if your opponent can say something to the great gullible voting public about the fact that a certain government agency known as the SEC had recently suspended you from something or other. To be a Wall Streeter and to run for public office (against a Democrat or a New Dealer) is handicap enough, but to be penalized by that guardian savior of mankind, the SEC, well that's too much of a handicap for anyone. The rumors have it that somebody resigned from the New Jersey political race just about two hours after the SEC paid him a visit. It was all right for Kaiser-Frazer to sell at 15 in the pre-issued market, but it wasn't according to hoyle for the Higgins stock to do the same.

Whether the charges and rumors that have been going the rounds regarding this entire affair are true or not, is hardly the issue. Certainly it is not the fault of the public, and the Securities industry, if such suspicions of evil doing are rampant regarding the SEC. Where there is as much indecision, lack of policy, and, the hit or miss methods of laying down rules and regulations, as has been the case with the Commission in the past several years, it is no wonder that confidence in that government agency is at such a low point that security dealers and brokers don't trust the sanctity of their telephone conversations on important matters. We have heard that some of the better known underwriting firms in the Street are afraid to discuss every day business matters over the telephone. They don't know where they stand with the SEC. They don't know at what point some new rule may be sprung upon them that will lead to their embarrassment, and the possibility of having their name dragged through the mud of a public censure by the SEC. That's a pretty low state for the Commission to have sunk in the eyes of many of the people in the industry. It's time for a complete airing of this whole business.

Joe Warren Vice-Pres. of Dallas Rupe Co.; Pearson Trading Mgr.

DALLAS, TEXAS—Dallas Rupe & Sons, Kirby Building, investment bankers, announce the election of Jos B. Warren as Vice-President in charge of the firm's Municipal Department. Mr. Warren, with 19 years experience in the securities business, joined the Rupe organization upon his return from overseas in September, 1945, having seen service as a Major in the Fifth Marine Division.

Joe B. Warren

G. Harold Pearson

G. Harold Pearson has been appointed manager of the Trading Department, it was announced at a luncheon given by the firm in the Texas Room of the Baker Hotel, honoring James F. Jacques, whose resignation as head of the Trading Department becomes effective April 1.

Mr. Jacques came from Chicago to join the Rupe organization 12 years ago and in recognition of the long association, D. Gordon Rupe, Jr., made the presentation of a watch on behalf of the firm and its employees.

Among more than 100 guests present at the luncheon were representatives of investment houses in Houston, Fort Worth and San Antonio.

Mr. Pearson, the new Trading Department Manager, has been assistant to Mr. Jacques the past two years. Mr. J. B. Garrett will be transferred from the Cashier's Department as assistant to Mr. Pearson.

Philadelphia Stock Exchange to Elect

PHILADELPHIA, PA.—The annual election of the Philadelphia Stock Exchange for President and members of the Board of Governors will be held at the Exchange on Monday, April 1, betwen the hours of 9 o'clock a.m. and 12 o'clock noon.

Nominated for the presidency is Frank E. Baker of Baker, Weeks & Harden.

Nominated for the Board of Governors (8 to be elected) are Howard Butcher, Jr., Butcher & Sherrerd; Holstein De Haven Fox, A. O. Wood, Jr. & Co.; John R. Huhn, Jr.; John S. P. Makiver, Penington, Colket & Co.; George L. Morris, Hornblower & Weeks; Frank L. Newburger, Jr., Newburger & Hano; Edgar Scott, Montgomery, Scott & Co.; Charles Sheridan, Sheridan, Bogan Co.; David S. Soliday, Hopper, Soliday & Co.; Edward J. Tague, Jr., Turton & Tague; Henry G. Weeks, Weeks & Co., and Spencer D. Wright, Jr., Wright, Wood & Co.

G. A. McFaul Partner in John J. Hess Co.

PORTLAND, ORE. — John J. Hess has admitted George A. McFaul to partnership in John J. Hess & Co., American Bank Building. Mr. McFaul has been Vice-President of Daugherty, Cole & Co. for a number of years.

Is a Stock Market Collapse Coming?

(Continued from page 1630)

of July, 1945, stated that the security markets "are being whipped up by the scandalous operations of tipsters and unscrupulous 'advisers.'" That "the public is back in Wall Street on a scale not seen for 16 years, trading millions of shares on the basis of rumors, hunches and impulses. Once again cat-and-dog stocks are swinging through sensational gyrations—rising 100% in ten days, then collapsing."

Apparently that flurry of fear was premature and greatly overstated, because quotations on low-priced stocks did not collapse. The extent of error in the warning is indicated by subsequent action of the market itself. The Dow-Jones Industrial Average price, instead of declining sharply after this blast was sounded, continued its upward climb throughout the final half of 1945, registering a rise of about 26% in the last six months of the year. After a lull in the latter part of December, vigorous new highs were made in early January, 1946, even though production of goods and the profits of enterprise were endangered, and in some cases entirely stopped, by strikes. When in late January there arose an overly optimistic belief that the strikes were about to end, the market gained about five points in one day, and in early February the Industrial Average climbed to 206.97. This was the highest level since October, 1930, at a time when stock prices were on their way down from the high of 381.2 in 1929.

Constructive New Market Factors

One reason for the error in the analytical judgment of critics was that most of them overlooked a large number of constructive new market factors which have come into play in recent years, and have not been given their deserved degree of recognition. Indeed, there is sound reason for the belief that the market at no time in 1945 was unjustifiably high, and that the degree of activity in Wall Street which many traders expected and were prepared to welcome for a prolonged period following V-J Day was a real possibility until the strikers and the OPA threw monkeywrenches into the machinery.

Early in 1946 a new wave of Wall Street phobia was released in the public press, ostensibly to save the market from itself—to forestall a so-called "Boom or Bust." Charging that danger signals were becoming too ominous, the Federal Reserve Board forbade all trading of securities on margin. The Chairman of the Board explained his fear of inflation and his theory of inflation prevention. And a new crop of writers began to warn the public against the pitfalls of speculation in securities.

Let us take a clear and careful look at Wall Street as a market, and try to see if there is danger ahead. If danger is found to exist, let us determine why it is there and how to appraise and avoid it.

Shrinking Supply of Stocks

One of the first things to be seen in Wall Street, as a factor accounting in part for the market performance in 1945-46, is the shrinking amount of merchandise for sale—merchandise in the form of stocks and bonds. In the last year or two the volume of securities available for trading on the New York Stock Exchange has been reduced by hundreds of millions of dollars by means of bond retirements. Money to pay off the bonds in many cases has been borrowed from banks. By virtue of the fact that banks are gorged with money, they are eager to make long-term loans at interest rates lower than the prevailing rates on corporate bonds.

Furthermore, bonds are not the only securities which are being taken off the market. Many preferred stocks in public utility holding companies have been liquidated, and others are in course of liquidation. This reduction in number of bonds and stocks for sale naturally serves to strengthen prices in a period when the buying power of the public is increasing. Wall Street responds to this set of factors in normal market fashion. The same kind of results may be found in the markets for butter, beef or nylon hose, with buyers becoming insistent and prices going up.

Last year's action of the market was only another demonstration of the well known economic principle that when demand for goods increases faster than the supply, prices are pretty sure to rise. The price level, whether in Wall Street or in Timbuctu, is an effect rather than a cause. If the price of mules in an inland market suddenly goes up 50% or 100% the farmers of Missouri and elsewhere are pretty sure to look for the cause. But the farmers, in contrast to the methods of Wall Street critics, proceed to correct the situation by raising more mules rather than by heaping blame upon the market place.

The Increased Money Supply

Another reason why security price rises were justified and inevitable in recent years is that people's pockets were full of money. National income, which was only $71 billions in 1937—the best year in the whole decade of the 1930's—increased to about $160 billions in 1945. The money available for investment in 1937, as measured by bank deposits in Federal Reserve banks, was under $21 billions, whereas in 1945 it had increased to over $60 billions.

Facts such as these are the ones which have been overlooked by recent critics of the stock market. And without giving consideration to them, an accurate market appraisal is impossible. With national income more than doubled, and bank deposits practically trebled, it is only natural that a large crop of potential investors should be looking for bargains. The wonder is that in 1945 the buying of stocks on the New York Stock Exchange averaged only about 1,258,000 shares a day, whereas in 1937 the average was 1,365,000 shares a day. Back in 1929, when the term "Boom Market" was really justified, the average number of shares traded per day was about 3,866,000. Thus, the daily volume of transactions in 1929, when margin trading was generously permitted and the public **was in the market**, was more than 207% above the 1945 volume. Stock prices in 1945, from the low of January to the high of December, went up 29.3%, whereas in 12 months ended with the March high in 1937 they went up 35%.

In 12 months to the date of the September high in 1929 the rise was 60%.

No Unorderly Stock Speculation

These facts seem to indicate that, in comparison with security prices in 1937 and 1929, the 1945 market in Wall Street was orderly, sound, well-justified and conservative. Indeed, Wall Street during the recent war was not lucrative enough to attract its usual proportion of the nation's resources. A lot of money found better bargains elsewhere, and stayed away from Wall Street. We read in the daily press that the market for farm lands, apartment houses and business properties is booming. It is reported that date growers in California in 1944 made 100% or better on their entire investment in date groves, and that much Wall Street money went to California.

As a matter of fact, there were many types of speculation which were more attractive than Stock Market securities during the recent war. The price of cattle, even though controlled by a ceiling, advanced 118% from the low of 1938 to the high of 1945. Hog prices did not reach their depression low for two years after 1938, and then they advanced 194% from the low of 1940 to the peak in 1945. The price of eggs, in a similar period, went up 203%, while the advance in butter was 104%. These examples would seem to indicate that any man who remained in Wall Street during World War II was a piker, because stock prices, as measured by the Dow-Jones Industrial Average, advanced only 98% from the depression low of 1938 to the high of 1945. From the day prior to the outbreak of war in Europe in September, 1939, to the day in December, 1945, when the highest security market of the year was recorded, stocks in the Dow-Jones Industrial group went up only 40%, while the approximate advance in cattle prices was 71%, hogs 130%, butter 89% and eggs 134%.

The farmer who never heard of Wall Street except in a derogatory sense, having always been told that Wall Street speculators are the world's champion gamblers, rushed out to buy a colt or a bunch of shoats or a herd of calves or an adjoining farm. This quality of foresight caused him to be looked upon by his neighbors as a good business man. He probably made a bigger profit and certainly took a bigger risk than most men who bought securities in Wall Street. His livestock was liable at any time to be stricken by lightning or fire or disease or flood, causing a total loss. Yet this rural trader, in the eyes of his neighbors, is a gentleman, not a speculator.

Cause for Crash May Come Outside of Wall Street

The speculator in Wall Street buys for cash, keeps his securities in a safety vault, acts at least a part of the time upon reliable financial advice, unless he himself is an expert, and has a ready market for his holdings if the time comes when sale seems advisable. Thus far, not once since the market rise began in 1942 has the investor been faced with any pressing need to become a seller. The end of the war brought no jolt to the financial community. Peace found investors with plenty of confidence and pockets full of money—two factors which do not breed a market collapse. If a collapse comes at any early date it is likely to be the result of excesses or foolishness elsewhere than in Wall Street, because people still have money, and any recent wilting of their confidence can be restored quickly if labor settles down to work and the politicians do not meddle too much.

Further light can be thrown upon the present status of the stock price level by comparing it with market performance in 1935-37. In that period the country was recovering from a severe depression. Early in 1935 the security markets began to advance vigorously, corporation earnings expanded, employment increased, and the country seemed to be pulling out of the economic slump. By the end of 1937, unemployment had been reduced to around 8,300,000, and the national income that year was 71 billion dollars. The highest closing price of the Dow-Jones Industrial Average in 1937 was 194.4, being approximately the same as the high of 195.8 in December, 1945.

The Extent of Stock Market Advance

Considerable significance attaches to the fact that stock prices in 1945, after a long war in which national income increased enormously to unprecedented heights, were only fractionally above their maximum level in 1937. In reflection of the large funds available for investment, the drying up of many of the previous attractive outlets for venture capital, and the expectation that business and profits of the leading corporations would be tremendous after the war, the surprising thing about the 1942-45 market is that it did not carry through to a plane well above that of the short boom in 1936-37.

It is true that many of the low-priced stocks on the New York Stock Exchange have gone up in price more than the Dow-Jones Averages. Back in 1935 our Congress passed the Public Utility Holding Company Act, with its death sentence clause. This took the last spark of life out of many securities, and marked the onward march of a governmental theory which dissipates private initiative as well as fortunes. Subsequent action by the Securities and Exchange Commission, and the integration, reorganization or liquidation of numerous public utility holding companies has proven that many securities which the market a few years ago appraised as worthless should have been regarded with much greater respect. Many of them possessed enormous hidden asset values. Discovery of these legitimate values in the last two or three years accounts in large measure for the so-called boom in many low-priced stocks.

Still another factor has had a supplemental effect. Production of war materials led to the discovery of many new and amazing industrial processes and products. Electronics is a new industry. Stocks of electronics companies have risen in price, from practically nothing to many dollars per share, on the strength of romance and earnings prospects. The same has been true in the fields of air transport, plastics, chemicals, drugs and some others. These advances in stock prices are not mere flashes in the pan. They represent new industrial horizons which only some alert individuals have been able to see. They reflect a sound market appraisal of new ideas of great promise. Persons who are attuned to such developments would have been dumb not to buy the stocks, and to sell them at a profit is no more diabolical than to sell a house or a horse or a cultivator at current advanced price levels. All men are alike when it comes to bargain snatching, and it makes no difference whether they are operating in Wall Street or in the trading center of a rural village.

Effect of Low Industrial Earnings

In contrast with so many favorable market factors, the combined influences of which resulted in an active and steadily rising market for securities, it is necessary to note the absence of one feature which ordinarily is required in reasonably full measure to create a genuine bull market. Indeed, the absence of this factor probably played a major role in holding the market down. This element—the veritable missing link—was the relatively low earnings of a number of the country's outstanding corporations. Taxes, price ceilings, priorities, renegotiation and other controls kept war earnings low, and the wave of market optimism which surged up after V-J Day no doubt was at least partially inspired by the belief that in the postwar period there would be a great increase in net incomes.

That numerous companies needed and were entitled to relief from earnings restrictions can be established by a study of the financial statements of Chrysler Corp. and many other leading manufacturers. Chrysler's net income for the five years of 1940-44 was smaller by approximately $62,000,000, or 31%, than earnings for the five years of 1935-39, despite the fact that the earlier period contained the closing year of the great depression of 1929 and the entire span of the short but severe depression of 1938.

Comparative earnings of other big corporations in 1940-44 versus 1935-39 show that net income of General Motors declined 1%, American Smelting & Refining 16%, National Biscuit 24%, and American Tobacco 5.4%. A few large units which increased earnings during the war, but not enough to crow too much about, are General Electric, 24%; General Foods, 9%; Johns-Manville, 56%; Packard Motors, 34%; Phelps Dodge, 32%; Union Carbide & Carbon, 23%; and Westinghouse, 51%.

United States Steel, when appraised in this manner, made a highly creditable gain of 129%. However, this good showing resulted not so much from big wartime earnings as from the fact that the years 1935-39, with which comparison is made, constituted a depression period for the steel company. In one of those years Big Steel had a deficit of $7,700,000, and in another it little better than broke even. Common stockholders received a dividend in only one of those five years, and that dividend amounted to only one dollar.

Largely because so many corporations were unable to make satisfactory profits, security speculation was less attractive in World War II than in previous wars. Moreover, there were restraints upon traders as well as upon company earnings. The number of bargain hunters was great enough, as should be the case in a free country where enterprise is a virtue, but they had to search far and wide for profit opportunities. Instead of centering their activities in Wall Street, or the Chicago Board of Trade, or the Cotton Exchanges, they operated in numerous market places throughout the country. As was indicated in a previous paragraph, Wall Street was not sufficiently attractive to hold the usual coterie of speculators, and many of them found better opportunities in California or in rural markets.

Wall Street Not an Isolated Market

As to the future of Wall Street, it is tied up with the future of the markets for commodities, farms, labor, and all kinds of personal service. Millions of civilians are hungry for automobiles, refrigerators, surloin steak, smoked ham, shirts with adequate tails, suits and dresses, nylon hose, and other thousands of articles requiring manufacture. Moreover, the public has the money with which to buy. If production were adequate, there would be a veritable orgy of buying and consuming.

The one thing now necessary to swing the country into a period of high earnings, increasing wages and mounting standards of living is heavy production. If labor and management do their part, and are not restrained by uneconomic laws and regulations, there will be much more reason to expect the Stock Market to go up than down. Other types of markets will be similarly affected, and the country will have genuine prosperity. However, persistent strikes or unjust restriction of profits could seriously retard output and force the security markets and labor markets into a long period of degeneration if not into a tailspin. To delay production unduly would be a tragedy for which Wall Street would have to suffer, although the blame would lie elsewhere.

Wall Street at present is dependent to an unusual extent upon outside developments. The "Street" would like to see an uncommon degree of wisdom displayed by politicians, governmental agencies, labor leaders and industrial managers. It would like to see the high production to which the public is entitled, and higher wages in every justifiable case. However, employees must be worth what they are paid, or the whole economic structure, and Wall Street, may collapse. The idea of getting pay for doing nothing, in a country where private enterprise prevails, can only be a resounding fallacy. Even in a truly socialistic nation it would scarcely prove successful. Nor is any informed person likely to be so naive as to suggest that it could succeed in a communistic country where the government is a dictatorship.

Indeed, the success of Wall Street as a market place is dependent upon the success of business and of all other types of market places throughout the country. The Stock Market is sure to collapse if private enterprise is killed. Private enterprise may be killed unless it receives an increasing degree of encouragement. But if the rest of the country does its part, Wall Street and labor and industry, and all legitimate markets far and wide, may look forward to one of the most profitable periods in American history.

Chicago FHLB Reports Large Feb. Lendings

February of this year was the second most active February in the lending history of the Federal Home Loan Bank of Chicago, A. R. Gardner, President, reported on March 11 to the Federal Home Loan Bank Administration in Washington. A total of $1,513,755 was advanced to Illinois and Wisconsin savings, building and loan associations, which was only 9% under the all-time record February of two years ago. The advices from the Chicago Home Loan Bank added:

Other February figures combine to build a further picture of the expanding part which this regional reserve system is playing in home financing operations in this district. There are 142 associations using the Bank's credit and retailing it in their communities to home owners, compared with 102 a year ago. The volume of advances outstanding to these institutions is more than double that of a year ago, $30,751,953 compared with $13,515,839.

Are Price Controls Necessary for the "Unprotected"?

(Continued from page 1631)

market, etc., etc. Among the few things currently in abundance are fear and money.

An overly ambitious government, in attempting to be all things to all people, is likely to welcome fears, then the people will demand more protection. Such a government might even use people's tax money to finance a campaign of fear.

Not that all these fears are groundless! The fear of inflation and rising prices is the one most talked about, most real. Who suffers from inflation, and, therefore, who needs protection from it?

Who Needs Protection?

A person is harmed, economically, if he is prevented from producing or if any part of the worth of what he produces is taken from him. On a national basis, the first of these affects the size of the melon, so to speak, and the second affects the way it is sliced. Inflation may affect either, and one who receives a smaller piece for either reason thus becomes "unprotected". A reduction in the size of the melon forces most everyone into the unprotected class; otherwise, the unprotected are only those who suffer from a change in the way it is sliced. I shall discuss both.

There are also the renters, who feel unprotected, and I will have a word to say about that situation.

Finally, but to be discussed first, is the plight of the poor.

Protecting the Poor

I wish first to discuss the protecting of the poor, because it is a mental decoy that gets us off the main track of wage and price controls in this emergency period of inflation. It is an important and fascinating subject, but there is not the time to treat it fully.

"The poor we have with us always." At least, we have with us, always, the would-be benefactors of the poor. They are claiming in current discussions that these controls should be continued in order to protect the poor during inflation. But the plight of the poor is not a new and emergency problem, calling for peculiar measures at this time. In fact, it is even less of a problem now than before the war, because the incomes of the lower third have increased more than those of the middle or upper third.

Production is of prime importance in helping the poor. A nation can consume no more than is produced for consumption.

And when I say "production", I mean quality as well as quantity —*what* people want, as well as how much. The idea of production in any other sense makes nonsense. If the demands of the people in a free market do not guide what is to be produced, the production figures are inflated.

The net effect of controls is to *reduce* production, and, therefore, to reduce what is available for consumption—for the poor along with the unpoor. Any haberdasher must know that you cannot sell shirts when there are no shirts, and any advertising executive must know that advertising does not produce shirts.

The original work of Pareto, confirmed by many others since, was the scientific discovery of the ever presence of the poor in any country. His studies revealed an amazingly similar pattern of inequality of income in different countries at different times and under all sorts of different governments and conditions. In other words, in each country there will always be a third that is ill-fed, ill-clothed, and ill-housed as compared with the other two-thirds; this seems to prevail as a sort of "natural law." It affords an excellent issue for any political party aspiring to permanent rule, because as a platform it is so permanent.

In view of this evidence, those who request continuation of controls in the interests of the poor, during this emergency of inflation, are not really asking for temporary extension. They are, in terms of their argument, asking that they be made permanent—as permanent as the ever presence of the poor.

But we need not be so pessimistic about the plight of the poor. In another and more useful sense, Pareto's work shows how poorness in an absolute sense is not the necessary destiny of any part of any nation. The lowness of the low third in any nation depends on the *average* production of that nation. The poorest of one nation may be economic royalists compared with the poorest of another, as illustrated by the United States compared with Asia. The average person here produces in an hour nearly ten times as much as the average for the continent of Asia. That is why the most poverty-stricken few (per cent) of our population are able to consume six times as much of the luxury meats and livestock products as the average of Asia, both rich and poor, and how they can indulge in other luxuries almost unheard of by anyone there.

On a short time basis, the poor can be given a larger share. One way to do this would be to allow everyone to rob his more prosperous neighbor, but there are other supposedly more respectable techniques for accomplishing transfers of wealth and income. Any of these offer only short time benefits, after which the share "for the poor" becomes a smaller and smaller piece because of reduced production.

The greatest total production and the greatest welfare of the poor, on a sustaining basis, will occur in the absence of controls, where each person is free to be enterprising and to get ahead, and where he receives as nearly as possible the equivalent of what he produces. In all truth and verified by the experience of all history, such is the way to protect the poor. We must, if we really wish to give them sustained help, discard the belief that a nation's economy is like a pack of wolves fighting over one sheep carcas. Ours is not that kind of an economy. It is more like shepherds who produce sheep, and who know that the more they produce the more they will have. They will quit producing if there are too many ravaging wolves.

So much for the plight of the poor. Now let us return to the special problem of inflation and those who become unprotected as a result of inflation. This is entirely separate from the problem of the poor.

Changes in the Size of the Melon

Without Controls

In the absence of controls, moderate inflation does not reduce the size of the melon (national total of economic production). In fact, it has a stimulating effect on production. Even during violent inflation, as in Germany during the early twenties, production seems to run at a high level for a long period. At a later point production is retarded.

With Controls

The inevitable result of controls, on the other hand, is to reduce the size of the melon because of interference with production. In other words, controls clog the economic pipe lines and thus tend to make everyone charter members of the unprotected or disadvantaged class. How, then, can it fairly be said that controls are necessary to protect the unprotected, when without them there would not be this wholesale unprotection? A comparable line of reasoning would be to demand protection by quack doctors who busy themselves spreading epidemics.

Controls raise such havoc in this country because ours is such an intricate economic machine. This intricacy makes possible our high standard of living, the highest in the world. Our system may be compared with the intricate network of water pipes underlying a great city. We all know how one or a few breaks or clogs in these pipe lines will affect the city's water supply; it may be left without water, except that carried in pails. When controls break our economic pipe lines the same thing happens. It drives us back toward self-sufficiency, probably no more than one-fifth of our present level of living. Some will observe that no such dire disaster occurred under wartime controls; I would answer that true prices were not held, that these controls were in a large measure either ignored or evaded —and that was the salvation of the situation.

As to how controls affect production, consider automobiles, for instance. They are a complex assemblage of many, many parts. Lack of even one small part makes all the rest of it useless. Automobiles cannot and will not be produced under enforced controls. I believe every automobile producer knows that, and will tell you so, privately. The public must either be told convincingly that this is true, and why it is true, otherwise they are likely to have to learn the hard way and go without cars. And who gains by that process? The poor as well as the millionaires would go without cars, because in this country even the poor have the best jalopy they can afford, and will even go without "adequate housing" in order to have a car—one that will run.

Another good illustration of the effects of controls high-lights the news these days. I refer to the wheat situation. Remember that wheat is too valuable as human food, even in this prosperous nation, for much of it to be used as livestock feed in normal times. Remember, too, that the human feeding power (calories) of grain is reduced by 85 to 98% when fed to livestock. In spite of an all-time record wheat crop in this country last year, added to an unusually large carryover, we now find ourselves in danger of being short of wheat for bread. Why? If you could, for instance, sell a bushel of wheat for no more than $1.50 as wheat, but you could get $1.75 for it in the form of the livestock products it will produce, which way would you sell it? That is what they did. More wheat was fed to livestock than was sent abroad during the first six months, and the amount was three-fourths as much as we ate, ourselves. The basic cause of the trouble was price, and it is not yet corrected nine months after harvest. Heartrending appeals for wheat to send abroad, orders about milling percentages, and all the other similar devices do not change existing price relationships, the heart of the problem. Nor will they bring back the wheat that is gone. So we are asked to continue, in the interests of the poor for whom bread is the staff of life, these devices for protecting them. I would say, instead, that price controls could be the cause of widespread hunger in urban areas of this country, a land of plenty.

Here is another illustration to show how people spend untold time trying to get what isn't there, at bargain ceiling prices. When leaving my hotel a few weeks ago, I traced a line of people to a little hosiery store; 427 people in line at 8:30 a.m. and about 50 still in line at 1:00 p.m. Probably it takes only a few minutes of work to make a pair of nylon hose, but people were standing in line *hours* to buy a pair. Is that the way to protect the unprotected?

These and countless other illustrations show how controls reduce the size of the melon, both in "production" and in "distribution." With a smaller melon, the average size of the pieces must be reduced. Controls create emergencies, and the resulting fear is used to extend controls in the name of protection. Controls, in other words, breed unprotection on a wholesale basis rather than protecting the unprotected.

So much for the size of the melon.

Changes in the Division of the Melon

Aside from the size of the melon, inflation affects the way it is sliced. Who becomes unprotected for that reason? I am referring now to selective, not wholesale, unprotection.

If everyone's income and the worth of their savings increased in exact proportion as inflation proceeded, no one would lose in buying power. For instance, if they all increased ten per cent while the prices of everything increased ten per cent, everyone could buy what he could before. People would merely have to carry more money. This would hold true for inflation of 10%, 100%, or 1,000,000%. But that is not the way it works. As inflation proceeds, some persons are shorted in the size of their pieces; they become "unprotected" while others benefit.

Since 1939, the income of the average family has about doubled. In other words, anything that has not doubled in price is now cheap by comparison, for the *average* family. Any family whose income has gone up less than this (double) has lost in bidding power for what is available; that family has become one of the "unprotected."

Items thus adversely affected by inflation include savings in the form of money, or its equivalent in the many forms that are loaned, and also the group of items like pensions, contracted items, and slow-moving salaries and wages. How this group is affected is illustrated by the plight of professors in China during its recent inflation. From 1937 to 1944, their pay increased 58 times. How could they be called "unprotected," with this increase? Because the cost of living rose 515 times, which left them in a position equivalent to a reduction in pay from $2,000 to a little over $200 a year.

Note, however, that whereas some *items of income* lose out in the inflation race, we are concerned with *persons*. The two are not the same thing. Any person's income may be one item, or a mixture of items. The number of possible combinations are as numerous as the blades of grass on the prairie. In order to identify the disadvantaged persons as individuals, it would be necessary (though I am *not* recommending it) to collect detailed information about the income of every person in this country, and to do so continuously (because of constant change). Then we would find that both rich and poor are among those disadvantaged by inflation.

The control authorities, apparently conceding the impossibility of such continuous personal interview, attempt wholesale protection by giving everyone the controlled price and the controlled wage. The gambler and the speculator in Florida real estate, along with the widow on pension, can buy goods at the same controlled price (if they can find them). And the same rise in wages is allowed, more or less, to everyone, despite the aroma of fairness introduced by the name "fact-finding boards." These boards perform the complicated mathematical feat of adding together a wage offer and a wage demand, dividing the total by two, and arriving at the prescribed answer of 18½ cents.†

These wholesale devices for helping the unprotected fail in their avowed purpose. Their operation can be compared to a philanthropist who would aid the children at a sports event to see over the shoulders of the taller grownups in front; so he gives everybody, tall and short alike, a two foot box to stand on. Or it can be compared, also, to a community medical project which gives colored water to everybody rather than real medicine to the one small boy who is sick.

Why do we fall into the trap of reasoning that everyone can be protected this way? I believe it results from the confusion between money and real welfare. We forget that money is the means to the end, and not the end in itself, and so are enticed by schemes to raise the incomes of everybody and reduce the cost of things everybody buys. Even with prices at zero and incomes at infinity, we could have no more to consume than what is produced. We cannot eat the money, and even for purposes of wearing apparel and housing it has serious disadvantages as compared with other materials in common use. This is regrettable, since money is so easy to produce.

So much for the question of the division of the melon, as affecting people differently during inflation.

Those Who Rent

The current housing situation makes of those who rent a special group, supposedly in need of protection. I am giving rents this emphasis because nearly everyone I know—even including most of those who understand why controls will completely stop the production of automobiles when the production of one small piece of the carburetor is interfered with —says: "Yes, but rents—; I agree as to the wisdom of taking off these other controls, but we need rent control under present conditions." So let us take a look at that problem.

According to the official figures, rents are now only about half their prewar burden on the average family because rents have gone up little and incomes have about doubled. This point has a great deal to do with the critical housing shortage, and we are likely to forget the importance of this demand side. When anything is offered at a bargain, there will always be a critical shortage of it. The shortage will disappear only when it is no longer a bargain.

Suppose rents were no burden at all—housing was free. How much space would people use? One family might try to use all of it, except for the costs of upkeep, and there would then be forty million too few houses and apartments in this country. Strange as it sounds, the "unprotected renter," if he wants a place to live, is best served by a free market. A controlled market, with rents too low, allows the protected to use too much space and crowd out the unprotected, as between renters; the inflation gambler will crowd out the widow on pension.

The assumption is always made that the landlord is protected and the renter is unprotected during inflation. This is not necessarily true. He may have less wealth than his renter; I know of many such instances. And under present conditions he is being penalized about half in his share of the nation's dollar income. Is it a crime for the landlord to share equally in the doubling of the money that is floating around? Has it become a crime to own property in this country, too?

This brings us to the supply side. With low rents and high costs of building and upkeep, who

†There is some difference of opinion on the derivation of this figure. Some say it can be found by subtracting 15% from 33%.

can build the additional houses for rent? Under these controls, the government is the only one in position to do so, because it alone has the legal power to send others a bill for the losses; it now proposes to violate its own ceilings, and to send us a bill for the difference. Who is rendered protection by that process?

So much for the plight of the renters, and the housing situation.

Summary (Re: "Who Needs Protection"?)

We have considered, from several angles, the question of "who needs protection." It seems that from all these angles, the argument about the unprotected is merely window dressing for the real issue. The real issue is whether we shall continue to expand these practices of National Socialism (of our own brand and label, of course).

Controls reduce production and, therefore, generate wholesale unprotection. Price and income benefits to everybody are protection to nobody. And the problem of the poor, neither now nor newly critical, is made worse by the adverse effects on production. Controls do, of course, offer a form of protection to some politicians and governmental employees.

In thinking of the government as a device for protection, we must, I think, consider briefly what government should and should not try to do. It should punish those who practice fraud, predation and violence. In this the government can perform an important function, but it has no mysterious capacity in that respect. It merely specializes in the job. It cannot prevent crime; it can only punish those who practice it, in such a way as to discourage others or even sometimes eliminate the practitioner. All this we could do as individuals, but we prefer to hire able specialists like J. Edgar Hoover to do the job for us.

How do wage and price controls fit into this pattern? The presumption in this plan is that any wage or price arrived at in a free market or by free bargaining may be of a criminal nature. We treat them as such under controls, and punish the offenders. By the same token I would be rendering my country a service in its fight against inflation if I used fraud, predation or violence to force my neighbor to sell his wheat below what he can get elsewhere. Is not the government itself, by these controls, practicing or encouraging the very things it is supposed to be protecting us against? I submit that a government may hire a non-specialist to render punishment for what should not be considered as a crime.

And the government should also protect us against instability in our national currency. As has been pointed out, (by Mr. Temple) these controls fail in that purpose, too. The panicky attempts to conceal the failure perpetuate and enlarge it.

All this may suggest what further might be said about the claim that wage and price controls protect the unprotected.

How Wage and Price Controls Operate

Our inflation problem, and the way wage and price controls attempt to solve it, is about like this. Here is a dollar bill, a sort of warehouse receipt entitling me to some of the goods and services of this country. The number of these in the hands of the public is about 100 billion (dollars) more than before the war, but the warehouse is empty. So, if we were to try to use them, we would find them to be worthless. Just paper. We call it wealth and savings, but we should think of it, instead, as the increased government debt that created it. These dollars are lying quietly at the moment, but they are like a sleeping volcano that may suddenly come to life.

Our current operations (income and expenses) add to the problem, about like this. Let us say that $6 represents people's incomes remaining after personal taxes and normal savings. But we spend only $5, leaving $1 as an economic orphan. So we are daily issuing more warehouse receipts than there are goods going into the warehouse (in addition to all the dollars that have accumulated).‡

What can be done about all these accumulated claims, and the continuing excess? We can issue fewer warehouse receipts, or reduce the amount of goods that each will buy ("higher prices"), or declare some of the warehouse receipts invalid ("price control").

The policy of price control causes endless problems and confusion. It makes people spend unproductive time standing in line. It generates black markets and all sorts of premiums for dishonesty and shady practices. It interferes with production and reduces the goods in the warehouse while increasing the warehouse receipts. This generates the inflation it was supposed to prevent (as Mr. Temple has so well explained).

Reduced production in time of want makes a hot seat for the control agency to sit on, so it has been insulated by the use of subsidies which are an idea borrowed from the totalitarian regimes of the ancient, medieval, and recent past. First a wartime expedient, subsidies have become a peacetime "necessity," ever increasing. We subsidize abroad and at home. No one seems able to tell us the total amount of subsidies now in effect, including both the direct and the indirect. But one columnist from Washington suggests that if subsidies planned by the Administration for the next year were put into effect, in addition to what we have, the total would be boosted to somewhere between 12 and 15 billion dollars, which adds further to the pile of useless warehouse receipts when we are supposed to be fighting inflation.

I have here a little piece of paper costing $6.33. It entitles somebody to some butter, cheese, milk, ice cream, beef, lamb, sugar, beans, corn, cotton, peanuts, tobacco, flour, soybeans, wool, and goodness knows how many other things. It also entitles me to a ride on a railroad (a "railroad ticket"). As nearly as I can figure, $4.40 of the full amount represents the cost of the ride and the other $1.93 covers the other things (taxes). The ride is mine and I pay for it as such; the other things I may or may not get, though I must pay for them in order to ride on the railroad. This applies to a millionaire and a poor man alike; both, whether they ride for pleasure or to work, are prohibited by our government from buying the ride at its cost without also paying for a part of somebody's grocery bill (subsidies). Under guise of a program for helping the poor and the unprotected, we are as individuals forced to invest in a type of economic organization common in the Old World where the poor have for untold centuries remained poor.

What the government is doing to help the unprotected is comparable to a project to flood the country with water, to be followed by another project to build protective walls around every home, farm, and factory, and to hire guards to plug the innumerable leaks in the walls. Jefferson said: "Were we directed by Washington when to sow and when to reap, we should soon want bread." The same sort of statement could well be made about wage and price controls. The government cannot successfully guide these detailed phases of our intricate economic system any more than it can steer everyone's car from Washington.

We may be seeing a test of the wisdom and foresight of Madison, who warned that a common passion would come to sway the majority in a democracy; that they would quickly force the ruler to become a tyrant; that a swift and violent death would be its fate.

Perhaps our descendants will look back on these economic experiments, which we are discussing, and ridicule them as we now ridicule the pagan beliefs of the ancient world where tribute to Zeus and Jupiter was confused with production; and people starved.

Shall We Discontinue Controls Now or Later?

If these controls are unwise, they should be discontinued *now*. If they are wise, they should be continued forever. The question is one of *type*, not of degree or of time. In my opinion, we should junk the entire control machine *now*, not just keep changing drivers or replacing nuts here and there.

Those who support continuation of controls fall into two groups: (1) those who favor the basic idea of controls, and (2) those who are being dishonest in supporting something they know is unwise.

Some profess to be opposed to controls after July 1, 1947, or some other future date. A person either believes in these controls, fundamentally, or he does not. The calendar has nothing to do with the question. A control which is judged to be unsound in 1960, or 1950, or July 1 of 1947 is also unsound on July 1 and March 21 of 1946. And if the idea is basically unsound for one person, one industry, one commodity, it is unsound for another.

Suppose we were discussing the question of robbery. Some might take the position that robbery should be approved, and some that it should be condemned. What would you think of those who professed opposition to robbery, but not until after July 1, 1947? You might suspect such persons of having in mind a little project which they hoped to have completed by that date. What would you think of those who professed in the belief that robbery should be condemned, but who said their minds had been changed by the results of a public opinion poll?

I cannot stress too strongly my belief that we should not temporize with this issue. Let me repeat; the question is one of *type*, not of degree or of time. It is no time for those who believe in economic freedom to weaken in the face of charges of greed and selfishness, or other accusations. If we abandon what is right, the rewards for being right will abandon us. Truth pays no attention to expediency, nor to mob psychology.

‡Survey of Current Business, January 1946, p. 4. In the final quarter of 1945 at annual rates: Income payments, $154.5 billion; disposable income, $135.2 billion; consumer expenditures, $107.0 billion; net savings of individuals, $28.2 billion. Normal rates of saving might be somewhere between the $6.0 billion of 1939 and $10 billion which would be about 9% of disposable incomes without any excess savings.

Export-Import Bank Credits to China

The Board of Directors of the Export-Import Bank has given preliminary authorization in principle to five credits to China, totaling $33,793,750, William McC. Martin, Jr., Chairman of the Board, announced on March 19. The details of the proposed credits are subject to negotiation, which is expected to be completed in the next few weeks. The credit lines will enable China to purchase in the United States a limited number of ships, railway and coal-mining repair materials and equipment, and auxiliary power plants, according to Mr. Martin, who said:

"These credits have been arranged after careful study to hasten the reconstruction of China's transportation and power systems which are so fundamental to the basic task of reconstruction. The credits will provide only for partial restoration of damaged equipment and do not furnish materials for new development. The credits will be of assistance in the restoration of China's foreign trade with the United States and other countries."

The individual credits, which vary somewhat as to terms, are:

1. Ten, N-3 SA-2 coastal cargo vessels to be purchased from the U. S. Maritime Commission, $4,243,750; 2. Sixteen coastal cargo vessels previously operated by the Army Transport Service, 11 of which are privately owned and five owned by U. S. A., $2,600,000; 3. Railroad repair equipment, $16,650,000; 4. Auxiliary steam power plants, 10 units, 5,000 kw., $8,800,000; 5. Coal-mining equipment, $1,500,000. A grand total of five credit lines, $33,793,750.

The announcement issued by the Bank also says:

"The ship credits from the Export-Import Bank will provide for about 67,500 tons of coastal and river shipping compared with China's present available coastal and river tonnage of about 183,500. Before the war, China's power-driven coastal and river fleet was approximately 370,000 tons. The additional ships will cover, therefore, about one-third of China's apparent loss of shipping during the war.

"Approximately 2,000 miles of railroad line, out of a total of 9,000 miles, were substantially damaged or destroyed. At least 1,000 miles of track must be restored for the emergency movement of coal, food and clothing. The present coal famine in Central and Eastern China is caused primarily by broken lines of communication. In most cities the coal shortage has forced utilities to operate on greatly reduced schedules. The Export-Import Bank credit will provide approximately 570 miles of track. UNRRA is also providing rails and other railway equipment for a little less than 500 miles of track. From both programs, China will be able to re-lay about one-half of her destroyed lines.

"The full extent of damage to the coal mines is not known. It is estimated that about one-third of China's prewar annual production of 30 to 34 million tons has been lost, caused both by mine damage and interrupted communication. The present Export-Import Bank credit will provide for certain general repair items.

"The 10 auxiliary power plants of 5,000 kw. are to serve as a general emergency pool, as they can be placed inside larger plants where required, or operated separately to provide emergency power independently. The total 50,000-kw. capacity will replace about one-fourth of the power damaged during the war.

"The terms on the credits vary somewhat because of the differences in type of equipment to be purchased. Loan to be made for 75% of the purchase price of the N-3 ships will run for 20 years with principal to be repaid in semiannual instalments with interest at 3½%. China will make a down cash payment of 25%. These terms are equivalent to those established by the Ship Sales Act. For the other cargo ships, the loan will mature in 15 years, with principal to be repaid semiannually during the last 10 years. Interest is at 3½%.

"Terms on the railroad and power equipment loans provide for repayment of principal in 30 years, with repayments in semiannual installments during the last 25 years. Interest is at 3%.

"Loans for the purchase of coal-mining equipment run for 20 years, with principal repayment in semiannual instalments during the last 15 years. Interest is at 3%."

SOUTHERN RAILWAY COMPANY

Fifty-Second Annual Report for the Year Ended December 31, 1945

Richmond, Virginia, March 25, 1946.

To the Stockholders of
SOUTHERN RAILWAY COMPANY:

The Board of Directors submits the following report of the affairs of the Company for the year ended December 31, 1945, which is the annual report it is contemplated formally to present to the stockholders of the Company at the annual meeting due to be held on May 21, 1946.

Foreword

With the year 1945, there ended a cycle of six years, 1940 to 1945, inclusive, which may be bracketed and termed the period of the country's preparation for war, of the war itself and of the partial transition to post-war conditions.

Part I of this Report will state the facts and figures concerning the year 1945, and Part II will set out briefly what the Company has accomplished with the increased revenues attributable to the "war period," 1940-1945, inclusive.

I.
The Year 1945
Operating Statistics

After successive increases in Operating Revenues, year by year, from $105,905,395 in 1940 to $260,978,544 in 1944, the Revenue from Operation of the railroad in 1945 declined to $247,536,833, a decrease of 5.15% from 1944.

The volume of business handled and the receipts therefrom, compared with the previous year were:

	1945	1944
Freight moved (tons)	63,605,131	65,587,514
Average distance moved (miles)	235.97	244.46
Ton miles	15,009,130,558	16,033,255,370
Average revenue per ton mile	1.162¢	1.165¢
Total freight revenue	$174,397,392	$186,821,986
Number of passengers	13,465,541	13,472,869
Average journey (miles)	193.51	199.46
Passenger miles	2,605,756,203	2,687,308,323
Average revenue per passenger mile	2.201¢	2.206¢
Total passenger revenue	$57,361,906	$59,270,726

Freight revenue for 1945 amounted to $174,397,392 and passenger revenue to $57,361,906, declining 6.65% and 3.22%, as compared with 1944, respectively.

The proportion of passenger revenue to total revenue remained in the relatively high ratio of 23%, this more-than-normal proportion of passenger revenue being attributable, as in 1944, to the extraordinary movement of the armed forces during the period of hostilities earlier in the year and at an accelerated rate in the demobilization period. During 1945 the Company ran 8,441 special and extra sections of regular trains handling armed forces alone, carrying thereon 1,396,184 members of the fighting forces, and on regular trains the Company carried a total of 12,069,357 passengers, more than half of this number being service personnel.

The decline in freight revenue, as compared with that received in 1944, began to be felt soon after the close of hostilities with the Japanese in August 1945, and may be attributed in large part to the cessation of the movement of munitions and other high-class long-haul heavy-loading war commodities; *the volume* of freight traffic for the entire year, however, not having declined as sharply *as freight revenue*, with the consequence that transportation costs could not be reduced in proportion to the decline in revenue.

Operating Expenses for 1945 amounted to $173,945,280, an increase over the year 1944 of $17,033,799, or 10.86%. Of this total $159,711,715 may be termed the *ordinary* Operating Expenses for the year, their increase of 1.78% over the corresponding figure for 1944 being due to the relatively small decline in the *volume* of freight and passenger business for the year, coupled with an increase in the cost and use of maintenance materials, and increases in the unit costs of labor during 1945.

The non-recurring extraordinary charge to Operating Expenses amounted to $14,233,565, and was the unamortized remaining cost at the termination of the emergency period of facilities previously certified to the Company as necessary in the interest of National Defense, divided between $380,002 charged to Maintenance of Way, and $13,853,563 charged to Maintenance of Equipment.

For the year 1945, Railway Tax Accruals, including the accruals for Excess Profits Taxes, amounted to $43,044,685, as compared with $66,641,178 for 1944. The reduction is attributable to the combined effect of less Operating Revenues with greater Operating Expenses. Contributing to the latter was the charge out of the unamortized cost of National Defense Projects, just mentioned, which produced a tax reduction of $11,514,827, of which $7,314,827 was applicable to the year 1945, and approximately $4,200,000 to prior years. *Despite the decrease, taxes took more than 17¢ out of every dollar of gross revenue.*

The comparative ratios of the several categories of Operating Expenses, expressed in the number of cents out of each dollar of revenue, were as follows:

	1945	1944
Transportation	30.58¢	28.69¢
Maintenance of Way	12.75¢	11.74¢
Maintenance of Equipment	22.32¢	15.70¢
Traffic expenses	1.29¢	.99¢
General expenses	2.22¢	1.90¢
Incidental expenses	1.11¢	1.10¢
Totals	70.27¢	60.12¢
Taxes	17.39¢	25.54¢
	87.66¢	85.66¢

After providing for the expense of operation, taxes and equipment and joint facility rents, there was brought down for fixed charges and for other corporate needs 10.83% of the 1945 gross revenue, as compared with 12.80% in 1944.

Thus Net Railway Operating Income showed for 1945 its third successive decrease, and illustrates the difficulty of controlling expense in a period of heavy taxation, ascending prices and increases in cost per unit of productivity.

Net Income

Net income (after charges and taxes) for 1945 amounted to $16,298,721, as compared with $22,261,814 for the previous year.

The Company's fixed charges were covered 2.19 times in 1945, as compared with a ratio of 2.55 times in 1944.

After dividends of 5% on the Preferred Stock, the balance of net income in 1945 was equivalent to $10.24 per share of Common Stock, as compared with the five prior years, as follows:

Year	Net Earnings Per Share of Common Stock
1940	$ 3.35
1941	12.61
1942	23.41
1943	15.81
1944	14.84
1945	10.24

Use in 1945 of the Company's Financial Resources

The major items for which the Company used its treasury resources in 1945 (after payment of its running expenses, taxes payable during the year and all fixed charges), were as follows:

(1) Expenditures of treasury cash for capital improvements to the plant (road and equipment) amounted to $15,871,428, an increase of $3,607,127 over corresponding expenditures for 1944.

(2) Disbursements in the continuing program of "debt retirement" amounted in 1945 to $16,426,834, in addition to a $2,000,000 purchase of bonds of a subsidiary.

(3) Dividends aggregating $6,894,600 were paid during the year, at the rates shown below.

(4) There remained on hand on December 31, 1945, (a) U. S. Tax Notes in the principal amount of $46,160,000, as reserves against accrued tax liabilities of $40,139,324, and other corporate needs, and (b) cash of $39,664,117, as shown in the balance sheet, the latter being reducible by items which were not cleared through the banks as of December 31, 1945.

Dividends

Dividends of 5% on the Preferred Stock, and of $3.00 per share on the Common Stock payable in quarterly installments of 75¢ each, were continued.

Operations and Maintenance

During the war years, all of the Company's operating facilities and manpower were employed in handling the heavy war load, both freight and passenger. During that period it was not a question of how much traffic could be secured but of how much the Company's facilities could handle. Competitive efforts were largely laid aside. New passenger equipment was unobtainable and materials and supplies were limited to essential needs.

These conditions continued during the first quarter of 1945, when signs of the cessation of hostilities began to appear, then came, abruptly, the need for adjustment to the highly competitive peace-time era to follow, so that beginning with the Summer of 1945, every effort was directed toward putting the railroad in position where it could compete successfully for peace-time traffic.

This required many adjustments and refinements in transportation and maintenance; in transportation, because more modern power, better equipment and better schedules would be needed, and in maintenance of way and maintenance of equipment because a higher standard was necessary to attract and hold competitive traffic.

Most important was the fact that wage costs and materials and supply prices reached a new high and it was imperative to reduce man hours and to hold to a minimum the use of materials. Added to the problem of controlling operating costs was the fact that a large volume of freight traffic had to be handled at a drastic reduction in the average revenue per ton and revenue per car. For example, immediately after "VJ" Day, the average freight revenue per car dropped from nearly $90.00 to approximately $79.00, due to the sudden stopping of munitions and other highly remunerative war supplies, as mentioned earlier in this Report.

A few examples of the results of the Company's efforts in 1945 to meet this problem were:

With the purchase of Diesel power, light steam power in substantial quantity was set aside for sale or other disposition, thereby obviating considerable maintenance; heavy repairs were effected on a large number of cars, and others, obsolete, were scrapped; a Diesel running repair shop was built and the Company's plan of modernizing its mechanical shops was continued and expanded.

Several fast freight Diesel-operated schedules were inaugurated between all the more important points on the System, and a program was put into operation for more expeditious handling of cars in terminals, both in through service and in the placement and despatch of loads for consignees and shippers.

The programs of improving shop machinery and practices, and of installing labor saving equipment, ditching and other roadway machines, and highway trucks used by the Maintenance of Way Department, were augmented; the long-life tie installations were continued with consequent saving in future maintenance, and a comprehensive program of improving communications, so vital to efficient operation, was vigorously pursued.

To keep step with the necessity of economy in the transition period and for the future, accounting practices and procedures were "streamlined," and progressive techniques were applied in 1945 to the ticketing and accounting for the Company's passenger traffic.

New Rail

During the six years, 1940 to 1945, inclusive, there have been laid new rail as follows:

Year	New Rail Laid
1940	15,355 tons
1941	20,925 "
1942	38,787 "
1943	40,733 "
1944	47,171 "
1945	50,659 "

Orders for 1946 have been placed for 40,000 tons of new rail.

New Equipment

During 1945 there were received (in addition to the two 5400 Diesel-electric freight locomotives delivered in February, 1945, as mentioned in last year's Report):

Seven (7) 1000-horsepower Diesel-electric switchers and four (4) 44-ton Diesel-electric switchers, which were paid for in cash; and three (3) 5400-horsepower Diesel-electric freight locomotives, approximately 75% of their cost being financed by means of 24 months' paper at 1⅜% per annum.

Because of labor difficulties of the manufacturer, delivery has been deferred on the six 4000-horsepower Diesel-electric passenger locomotives referred to in the 1944 Report, but they are expected shortly. Notes to be payable over a six-year period with reference to approximately 75% of their cost have been sold, under competitive bidding, again on the interest basis of 1⅜% per annum.

In addition, there are now on order:

14—1000-horsepower Diesel-electric switchers,
16—6000-horsepower Diesel-electric freight locomotives, and
1000—50' 6" 50-ton steel sheathed automobile box cars,

delivery of all of which is expected during 1946.

II.
The Six Years 1940-1945, Inclusive

After the lean years of the 1930's, the Company entered the period of war engendered activity, commencing in 1940, needing capital improvements and additions to its roadway and equipment, its track particularly needing installations of new rail, purchases of which had been reduced during the depression; with a large indebtedness to the Reconstruction Finance Corporation; without a financial back-log; and with its fixed charges high in relation to earnings of the depression period.

During the six-year period, 1940-1945, inclusive, progress has been made toward improving these conditions. Within the six years the Company has been enabled (after paying all the thousands of items comprised in operating expenses — including unprecedentedly large sums to the taxing authorities):

(a) To put back over $62,250,000 into capital improvements to enhance the efficiency of the property;

(b) To accomplish "debt retirements" in excess of $91,000,000, including the acquisition or retirement of interest and dividend bearing securities on which the Company was obligated, the retirement of its R. F. C. indebtedness (a portion of which was repaid prior to January 1, 1940) and the acquisition of and investments in bonds of subsidiaries; and

(c) To disburse dividends to the stockholders aggregating nearly $20,000,000 between November 2, 1942, and December 15, 1945, the first since 1931.

There remains at December 31, 1945, $155,309,221 in the credit balance in the Profit and Loss Account, largely invested in property, *an increase therein of $79,831,960, as compared with December 31, 1939.*

Capital Improvements

As just shown, during the six-year period, there have been put into and on the property capital improvements costing the Treasury over $62,250,000.

Additions to roadway and structures have accounted for $23,680,906 of that amount.

These additions and betterments include, together with many thousands of smaller items, the capital portion of the cost of installing new rail and other track material in the amount of over $7,100,000; new industrial tracks aggregating $1,970,000; capital charges incident to the continuing program of filling in trestles, during the six years there having been eliminated more than ten miles of wooden trestles, at a capital cost of $4,353,000, including the installation of 16 steel bridges; the erection of new or improvement to existing structures, including stations, office buildings, coaling facilities and Diesel shops, at an aggregate capital cost of $2,885,000; the installation of additional automatic train signal and communication apparatus at an aggregate capital cost of more than $653,000; and the expenditure of over $2,714,000 for new shop machinery and new roadway machines, including mechanical tie tampers, bulldozers, automobile trucks, and many other mechanical devices for on-line rail cropping and other renewal operations.

Between 1940 and 1945, inclusive, the Company's expenditure from the Treasury for additions or capital improvements to its rolling stock have aggregated $38,588,200.

Within these years the Company has acquired and has placed in service the following new equipment:

8782 New Freight Cars
4 Diesel-electric 44-ton Switch Engines
7 Diesel-electric 600 or 660-horsepower Switch Engines
33 Diesel-electric 1000-horsepower Switch Engines
3 Diesel-electric 2000-horsepower Road Passenger Locomotives
5 Diesel-electric 4000-horsepower Road Passenger Locomotives
12 Diesel-electric 5400-horsepower Road Freight Locomotives
6 Modern streamlined passenger trains, being the equipment for "The Southerner" and "The Tennessean".
25 Steel Baggage-Express Cars.

During this period, the aggregate of the deferred payments on account of rolling stock, represented by the Company's Equipment Trust or Conditional Sales obligations, did not, however, materially increase, the Company owing under this category as of December 31, 1939, $24,059,000, and $26,707,759 at December 31, 1945.

During the six-year period ending with 1945, the Company abandoned 169.50 miles of track.

The Company thus enters the post-war period, commencing with 1946, conscious of having performed its patriotic task of providing the requisite facilities to serve the country's war-time needs. Its road and equipment are in adequate condition and volume, it is confidently believed, to handle the coming business of the post-war era—except for the need of new passenger equipment of modern design, the purchase of which is in contemplation.

The Reduction of Debt and Fixed Charges

During 1945, the Company continued its program of reducing debt, with the consequent lightening of its burden of fixed charges.

In addition to acquiring the balance outstanding of the Mobile and Birmingham 5's and 4's which matured July 1, 1945, in the aggregate principal amount of $1,800,000, and acquiring or providing for the redemption of various other bonds which the Company was obligated to service, some of them having been acquired by a subsidiary, in the additional principal amount of $461,000, the Company during 1945:

(a) Jointly with the Louisville and Nashville Railroad Company, called and paid off the total issue of the L&N-Southern Monon Collateral Joint 4% Bonds, due July 1, 1952, Southern's proportion so retired being the principal amount of $5,892,500;

(b) Acquired and cancelled $7,277,000 principal amount of its Development and General Mortgage Bonds, due in 1956, thereby reducing this issue, which originally stood at $111,333,000, to $71,877,000 at December 31, 1945, and reducing the interest payable on the balance outstanding, composed of 4's, 6's and 6½'s, to the average rate of 4.89%;

(c) Exercised on December 28, 1945, its option to purchase as of March 1, 1946, the stamped or guaranteed 9% stock of The Atlanta and Charlotte Air Line Railway Company at the option price of $250 per share, of which there were 15,821 shares, and on the same date offered to pay the same price for the unstamped or unguaranteed portion thereof, namely, 1179 shares, thereby to effect an annual reduction in Company's fixed charges of $157,000; and

(d) Acquired $2,000,000 remaining principal amount of the Georgia Southern and Florida Railway Company's First Mortgage 5% Bonds, due July 1, 1945, after that Company, a subsidiary, paid $2,000,000 on account of the $4,000,000 maturity.

These items aggregate in face value or principal amount $18,780,000 of obligations acquired or provided for in 1945, exclusive of equipment trust installments paid during the year.

The Company's fixed charges, on an annual basis as defined by the Interstate Commerce Commission, less income from securities of its leasehold estates owned by the Company, including the pending reduction from the acquisition of The Atlanta and Charlotte Air Line stock, were approximately $11,900,000 at December 31, 1945.

On the same basis, the fixed charges were $16,500,000 on December 31, 1939, there having thus been effected a reduction of $4,600,000 a year, or 27.87%, in the Company's fixed charges in the six-year period.

In addition, between January 1, 1941, and December 31, 1945, there were cancelled and retired 22,484 Southern Railway-M&O Stock Trust Certificates, reducing the number of Certificates outstanding from the original amount of 56,702 to 34,218, and reducing the miscellaneous income charge thereon to $136,872 annually as of December 31, 1945.

Funded Debt

The table of funded debt at the end of 1945 showed the following comparisons with 1944 and 1939:

	Dec. 31, 1945	Dec. 31, 1944	Dec. 31, 1939
Funded Debt	$194,650,500	$207,820,000	$241,499,500
R. F. C. Notes	--------	--------	27,041,700
Leasehold Estates	52,923,600[1]	52,929,600[2]	53,154,000
Equipment Trust Obligations	26,707,759	30,666,658	24,059,000
Totals	$274,281,859	$291,416,258	$345,754,200

[1] Includes $8,082,000 of Bonds acquired by the Company or its subsidiaries since January 1, 1940.

[2] Includes $5,000,000 of the Atlanta and Charlotte Air Line Second Mortgage 3¾'s owned by the Company.

Future Maturities

Reserves have been set aside for the acquisition of the Georgia Midland 3% Bonds outstanding in the principal amount of $1,650,000, maturing April 1, 1946.

Between 1946 and the year 1956, there occur the following maturities of bonds on which the Company is liable as maker or endorser (exclusive of minor joint terminal issues):

Year	Issue	Principal Amount
1949	Atlantic & Yadkin 4's	$ 1,500,000
1951	Southern's St. Louis Division 4's	12,474,000
1953	New Orleans Terminal 4's	14,000,000
1956	East Tennessee & Virginia Consol. First 5's	12,770,000
1956	Development & Gen. Mortgage Bonds (originally $111,333,000)	71,877,000

Industrial Developments

The war years, 1940 to 1945, did not interrupt, but on the contrary, contributed to the long term upward trend toward greater "industrialization" of the South, the region served by the lines of the Company and its affiliates, known as Southern Railway System.

Cotton textiles, rayons, iron and steel, aluminum, paper manufacture, and tobacco—these great industries, among others, played their indispensable part, in Southern territory, in the collective effort of the country which contributed so much to the winning of the war. Their prospects of continued activity and further increase have not been dimmed by the ending of the war, but are enhanced as 1946 begins.

In 1945, the cotton growing states consumed 88.4% of the total cotton consumed in the United States, and further expansion is in definite prospect.

The rayon industry, after record breaking production in 1945, has announced definite expansion plans in the territory, including the construction of a new cellulose acetate and spinning plant of tremendous capacity, to be served by the Company's lines; and the construction of an important nylon plant in the Company's territory is in immediate contemplation.

Iron and steel capacity in the South was expanded during the war years by the investment, governmental and private, of upwards of $270,000,000 in new facilities, which should result in a permanent increase in the numbers of jobs and in greater steel production when the cutbacks, due to cancellation of war contracts, have been absorbed, and reconversion to civilian use accomplished; and the same facts are apparent with reference to the tremendous aluminum capacity in Southern territory, as constant search for new industrial uses of the lightweight metal is intensified.

The prospective growth of the wood-pulp, wallboard and paper industry in Southern territory is also impressive, being evidenced, for example, by the imminent construction of two additional plants to be served by Southern System lines, the prospective initial investments in these new facilities being estimated at more than $16,000,000.

While these major industrial developments are heartening to those who have staked their future in the South, as is the kindred expansion in prospect in automotive manufacture, lumber, chemicals, tobacco and its products and in the great fields of agriculture and coal, the most hopeful sign of future development in the territory is the many hundreds of applications for new industrial side tracks which nearly "swamped" the capacity of the engineering department of the Company as soon as the war ended, evincing the determination of "small business" to find its place in the sun and in the growing South.

During 1945, 178 new traffic producing industries were established on the lines of the Company and its affiliates; and 65 existing establishments were enlarged.

Public Relations

With few exceptions the relationship between the Company and public authority, and with the Company's customers, have been cordial and helpful—and are gratefully acknowledged.

The Company continued its advertising in on-line newspapers, in farm and state teacher journals circulated in the South, and in nationally-circulated business magazines and financial periodicals, with a total circulation of 94 million.

In the locally-circulated advertisements, emphasis was placed on the progressiveness of the Company and the vital part it occupies—as a transportation agency, taxpayer, job provider, and customer of local business—in the economic life of the communities along its lines.

The nationally-circulated advertisements continued to be built around the basic theme of "Look Ahead—Look South," and were designed to create a nation-wide awareness of the territory served by the Company, its wealth of natural resources and advantages, and its attractiveness as a location for industries seeking opportunities for greater growth and prosperity.

The Board records, with deep regret, the death on November 1, 1945, of their esteemed colleague, John K. Ottley.

Conclusion

The Company has given in this Report an account of its stewardship during the six-year war period when more-than-normal revenues were available. Entering the post-war period, when revenues will inevitably be less, the Company believes that its plant and its finances are in shape, the better to serve the South, and to maintain the owners' confidence in their property.

The management is grateful to the personnel for its steadfast effort in the trying war period.

Respectfully submitted, by order of the Board,
ERNEST E. NORRIS,
President.

SOUTHERN RAILWAY COMPANY
Financial Results for the Year

	In 1945	In 1944
The Company received from freight, passenger and miscellaneous operations a total revenue of	$247,536,833	$260,978,544
The cost of maintaining the property and of operating the railroad was	173,945,280	156,911,481
Leaving a balance from railroad operations of	$73,591,553	$104,067,063
Federal, state and local taxes required	43,044,685	66,641,178
Leaving a balance of	$30,546,868	$37,425,885
The Company paid to other companies for hire of equipment and use of joint facilities in excess of the amount received by it from those sources	3,729,101	4,010,044
Leaving an income from railway operations of	$26,817,767	$33,415,841
Other income derived from investments in stocks and bonds and miscellaneous items was	3,521,283	3,518,811
Making a total income of	$30,339,050	$36,934,652
Interest on funded debt and equipment trust obligations, rents paid for leased railroads and miscellaneous deductions totaled	14,040,329	14,672,838
Resulting in a net income of	$16,298,721	$22,261,814

SOUTHERN RAILWAY COMPANY
Financial Position at the End of the Year

	On December 31, 1945	On December 31, 1944	Increase or *Decrease*
The Company had investments in land, railroad tracks, terminal facilities, shops, locomotives, freight and passenger cars and other fixed property of	$572,811,076	$566,828,093	$5,982,983
In addition the Company had investments in stocks, bonds and notes of affiliated companies and other investments carried at	55,548,019	52,598,362	2,949,657
Total Investments	$628,359,095	$619,426,455	$8,932,640
The Company had cash and special deposits amounting to	$44,170,007	$32,934,682	$11,235,325
And temporary investments in U. S. Government Notes	46,160,000	72,300,000	*26,140,000*
Other railroad companies and others owed the Company	19,408,654	23,927,453	*4,518,799*
The Company had on hand fuel, rails, ties, bridge material and other supplies necessary for keeping road and equipment in good order	13,689,502	14,470,000	*780,498*
Deferred assets and unadjusted debits, including items owed to but not yet available to the Company	8,791,105	7,447,292	1,343,813
The Assets of the Company totaled	$760,578,363	$770,505,882	*$9,927,519*
The Company owed for materials, supplies, wages and balances to other railroad companies, and interest, dividends and rents accrued but not yet due	$34,667,386	$37,358,782	*$2,691,396*
Taxes accrued but not due	40,139,324	63,515,116	*23,375,792*
Operating reserves	2,284,359	2,080,873	203,486
Reserve for depreciation of road and equipment and amortization of defense projects	93,044,784	68,606,712	24,438,072
Deferred liabilities, including items due to others, but not yet adjusted	17,279,153	15,062,406	2,216,747
The total of these liabilities, credits and reserves was	$187,415,006	$186,623,889	$791,117
After deducting these items from the total assets there remained, for the capitalization of the Company, net assets of	$573,163,357	$583,881,993	*$10,718,636*
The capitalization of the Company consisted of the following:			
Funded Debt, including bonds, equipment trust obligations, etc.	$221,358,259	$238,486,658	*$17,128,399*
Preferred Stock	60,000,000	60,000,000	------
Common Stock	129,820,000	129,820,000	------
Making a total capitalization of	$411,178,259	$428,306,658	*$17,128,399*
After deducting this capitalization from net assets there remained a surplus, largely invested in the property, of	$161,985,098	$155,575,335	$6,409,763

Treasury Regulations for Salary Increases

The Treasury Department's Salary Stabilization Unit issued on March 20 its regulations defining the terms under which salary increases may be granted under the new wage-price policy. The rules inform employers of the basis under whcih they may, without prior approval, give salary increases which are to be included in applications for compensatory price relief. It was pointed out that such increases would not be permissible in the case of an employee earning more than $7,500 a year, specific authorization for such rises to be required from the Treasury Department.

Following are the regulations in brief, as outlined by the "Journal of Commerce" in a Washington dispatch of March 20:

1. An increase in the salary of an individual employee is permissible if it is not in excess of the dollars and cents increase approvable by the National Wage Stabilization Board to correct intra-company inequities.

2. Such an increase is permissible if it is not granted to an employee whose salary is in excess of $7,500 a year.

3. No increase given an individual employee and effective prior to the issuance of the President's executive order of Feb. 14, 1946, can be approved.

The new Treasury regulations will make it possible, the "Journal of Commerce" points out, for employers to make salary adjustments with individual employees along the same dollars and cents lines as wage increases granted workers who bargain collectively. Thus, higher paid salaried workers would not fare as well, percentagewise, as wage earners. The advices add:

Such individual increases made under the general approval granted by the Treasury Department may be applied to salary rate schedules.

So-called "approved" increases granted to individuals in conformity to the new regulations are automatically approved and the employers may include these higher salaries in any application for compensatory price relief.

No applications for approval of salary adjustments made in conformity with the new regulations are necessary, the Treasury Department announced.

The 100% Money and Other "Reserve" Proposals

(Continued from first page)
nocently because of ignorance, sometimes apparently on purpose either with intent to deceive or because their authors are remarkably credulous.

The worst and most troublesome type of money known to man—fiat paper money—has attained a high rank among the old monetary fallacies that have been dragged out, dusted off, and offered to the American people in all seriousness as something new and proper and genuinely promising in the social benefits it is said to guarantee.

The devices suggested for providing our people with the alleged "blessings" of fiat paper money have taken a variety of forms, ranging from open and direct advocacy, generally by those innocent of any knowledge of the history or principles of money, to subtle and indirect schemes offered by people who should know better. Some of this advocacy became so strong in Congress in the early 1930's that the Thomas fiat money law of May 12, 1933 (Sen. Elmer Thomas, Okla.), was passed—the first time since Civil War days that Congress had reached such a degree of wildness in monetary matters. Fortunately that law, which permitted the issuance of fiat paper money up to 3 billion dollars, was repealed by a saner Congress on June 12, 1945.

The "100% money" proposal, popularized chiefly by Professor Irving Fisher of Yale University, the Constitutional Money League, and Representative Jerry Voorhis in Congress, is an illustration of an attempt to foist a prodigious amount of fiat paper money onto the American people by a somewhat devious device. The amazing thing is that it should be taken seriously by anyone of responsibility who has had any significant amount of training in the history and principles of money. While most of the advocates of the proposal seem to be a motley assortment of monetary quacks, the Fisher scheme has had support of one sort or another among people from whom something quite different would normally be expected. This is one of the striking features of that peculiar monetary disease which has afflicted this country, particularly since 1932.

On top of the 100% money or 100% bank reserve agitation of Professor Fisher and his associates and followers, we have, in recent months, been offered some new variations of 100%, or near 100%, "reserve" proposals which deserve special scrutiny because some of them emanate from Federal Reserve bank circles and from economists, some of whom have been closely tied in with Government "planning" agencies. One variety is the Treasury Certificate Bank Reserve Plan advocated by Simeon Leland, Chairman of the Federal Reserve Bank of Chicago, and Professor of Government Finance, the University of Chicago, and by Lawrence H. Seltzer, Professor of Economics, Wayne University, Detroit, and reputedly one-time staff member of the Federal Reserve Bank of New York and of the Board of Governors of the Federal Reserve System. A somewhat different variety is offered by a group of economists employed by the Committee on Economic Development, often referred to as the C. E. D.

The Fisher Proposal

The major aspects of the 100% money scheme, such as Professor Fisher proposes, can be traced back to the British chemical engineer and professor at Oxford, Frederick Soddy, who presented his views in a book called "Wealth, Virtual Wealth and Debt" (Dutton, New York, 1926). Deciding that economists did not know their business, he suddenly turned economist and supplied them and the world with what he deemed to be the proper answers.

Next came a plan for 100% reserves circulated in memorandum form by a group of economists at the University of Chicago. It is to this group that Professor Fisher seems most directly indebted.

Then came the first edition of Professor Fisher's "100% Money" (The Adelphi Co., New York, 1935), followed by a second edition in 1936. Now he has a third edition, and, in connection with a solicitation of support for his plan, he is offering a complimentary copy to the recipient of his request card. Professor Fisher states that he is soliciting approval of his plan from "4,069 economists, bankers and economic students," and, on December, 1945, reported that he had received 985 approvals. It will, of course, be interesting to learn just how many of these 985 are well-trained and experienced students in the fields of money, banking, and fiscal affairs, should their names ever be divulged.

Following the appearance of the second edition of his "100% Money," Professor Fisher was able to stir up some interest in the subject among that group in Congress whose members generally seemed ready to embrace fiat money or some similar wild-money scheme. Because interest in, and discussion of, the proposal appeared to be increasing sufficiently to indicate the possibility of some dangerous developments, this author prepared an analysis of the Fisher plan in a pamphlet called "The Fallacies of Professor Irving Fisher's 100% Money Proposal" (Farrar and Rinehart, Inc., New York, 1938), 41 pp.

In this pamphlet it was pointed out (p. 3) that "the title [of Fisher's book] does not reveal to the reader just what it is to which the 100% refers" and that if the title and subtitle were accurately stated they would read: "100% Money (But All of It Inconvertible Paper Money)." The last paragraph of the pamphlet (p. 41) reads: "Thus the evidence forces us to conclude that the proposal for 100% Money is not a proposal for 100% good money but for 100% inconvertbile paper money—a thoroughly bad money."

Professor Fisher objects to fractional reserves against demand deposits in banks and he wants the Government to issue all paper money and to do it in a manner that will stabilize the price level. Fisher has been an ardent advocate of price level stabilization by currency manipulation since he wrote his book, "Stabilizing the Dollar" (The Macmillan Co., New York, 1920). To require the banks to maintain 100% reserves against their demand deposits and to put in the hands of the Government the power to manipulate the currency supply by the issuance of fiat money, he proposes that all banks turn over to a Federal Currency Commission their Government securities and receive in exchange fiat paper money. This would eliminate much of the Government's interest-bearing debt, save interest, and give the banks 100% reserves—of fiat money.

When one considers that the demand deposits of all banks in the United States amounted to $104,650,000,000 on Dec. 31, 1945, one can see what a huge volume of fiat money Fisher would have the Government issue. As pointed out in this author's pamphlet (p. 3): "Stated very briefly, Professor Fisher's proposal would hurl this nation headlong into a thoroughgoing system of inconvertible paper money. The presumably good assets of banks, and the presumably good securities of the United States Government, would be converted into inconvertible paper money—the most effective device for defrauding innocent and helpless people that human beings probably have ever devised.

"All other arguments, contentions, and proposals of Professor Fisher become decidedly secondary in importance in the face of this major fact."

It is said further in that pamphlet (p. 4): "History is strewn with the wreckage and records of human suffering caused by 'ingenious devices' to issue, and 'control' the consequences flowing from, inconvertible paper money. These efforts to create wealth out of paper, to make something out of nothing, are a species of black magic, and they have always failed.

"Professor Fisher's plan is no better than many of the others that have preceded it. In some respects it is much worse than some of the others. . . .

"The Fisher proposal differs from other inconvertible paper money and inflationary schemes principally in its intricacy, ingenuity, and the cleverness with which the hocus-pocus involved is covered up."

The Constitutional Money League

Early in 1939, a group in and out of Congress, whose members were interested in pressing for fiat money, Fisher's 100% reserve scheme, repudiation of the Federal debt by the substitution of fiat money (which was not called debt but "Constitutional Money"), government-"managed" currency, and stabilization of the price level, organized what was called "The Constitutional Money League."

Although that organization seems quiescent, and it may be defunct, some of its one-time most active members in and out of Congress are still trying to put over its fiat paper money, 100% reserve, Monetary Authority, price-level stabilization scheme. For this reason a brief account of that organization's nature and efforts becomes an appropriate part of a description of present-day agitation for 100%, or near 100%, bank "reserves."

Although there was much about the Constitutional Money League and its tactics that did not readily meet the eye, a considerable amount of insight into the formal aspects of the organization can be obtained from the "Congressional Record" of March 3, 1939, pp. 3183-3185, especially p. 3185, and from the League's "Constitutional Money Advocate" (Jan. 1, 1940), pp. 17-18.

Its president was one-time Congressman from Nebraska, Charles G. Binderup. Robert Hemphill, one-time credit manager of the Federal Reserve Bank of Atlanta, was executive secretary. Robert L. Owen, one-time United States Senator from Oklahoma, was head of the Honorary Advisory Business Council. Besides the Honorary Council, there was, or was to be, an Executive Business Council and an "honorary tribunal of economists, with a membership of more than 100 professors of the Nation's outstanding universities, monetary authorities in political economy."

Various monetary economists and others tried repeatedly and in various ways to find out who these "more than 100 professors" were, but Binderup was always evasive and, so far as this author knows, the facts were never made available to the public or to Congress. It was reported that Professor Fisher was to marshal this group and to head it, but he denied it.

The League published a monthly magazine called the "Constitutional Money Advocate," apparently running from Nov. 1, 1939, to April 1, 1940—in any event, this author could not obtain copies after the fifth issue. Its editor was Charles G. Binderup, and it was issued from his home at Minden, Neb.

From March 3, to June 1, 1939, the League ran a series of Tuesday morning Breakfast Talks, broadcast over station WOL, the Mutual station for the District of Columbia. Among the League's tactics, in its broadcasting and otherwise, was that of attempting to convey the impression that it was chummy with the "powers-that-be" and had widespread and important support. For instance, practically all Tuesday-breakfast broadcasts opened with a cheerful greeting by Mr. Binderup in some such manner as the following: ". . . we again bid good morning to our President Roosevelt, Members of the Senate and House, members of our President's Cabinet, and members of the Federal Reserve Board." ("Congressional Record," June 1, 1939, p. 9187.)

Another device employed, not necessarily as part of its radio broadcasts, was to appropriate or claim support whether or not it actually existed or was given. For example in February-March, 1939, six men, of which Professor Fisher was one, from six universities, circulated "A Program for Monetary Reform" among "a selected group of economists who are invited to signify their approval if they will." What they were asked to approve was the Fisher-Constitutional Money League program although neither the League nor Fisher's program was mentioned. In the "Constitutional Money Advocate" of Jan. 1, 1940, pp. 17-18, these six economists turned up under this statement: "In its educational work, the Constitutional Money League of America endorses and promotes the 'Program for Monetary Reform' (including the principles of Government monetary issue and control and 100% reserves back of demand deposits) sponsored by over 300 of the Nation's academic economists under the leadership of: [then the six economists were named]." Following the names of these six men was a list of 48 colleges and universities said to be "among the universities and colleges also represented by these 300 economists."

This author wrote each of the six economists asking whether "A Program for Monetary Reform" which they had sponsored was part of that of the Constitutional Money League. Three denied that they knew anything about the League, two were somewhat enigmatic, and Professor Fisher stated emphatically that it had no connection with the League.

An apparently very different answer was made by Binderup to a man who had written him about the League's support and program. He said: "The Constitutional Money League of America endorses and is promoting the program for monetary reform that is sponsored by over 300 academic economists from 48 of our leading colleges and universities such as Yale, Harvard, Princeton, Columbia, Cornell, etc. (listed in the "Constitutional Money Advocate") under the leadership of six courageous leaders (also listed in "Advocate")" — the six economists mentioned above.

Various requests went to Binderup to name the economists, in the institutions he listed, as supporting the League's program, but he always refused. One economist reminded him "that it is not 'cricket' to exploit your ideas with a vague statement of professional support. If you have that support it is quite clearly your duty to make the names known. If it really be true that professional economists are endorsing your plan but are unwilling to let their names be made public, the situation is a most deplorable one. My own extensive acquaintance among the economists of the country frankly leads me to doubt that you have any such support."

Probably the most active member of the League in Congress, and the persistent supporter of Fisher's plan was, and is, Rep. Jerry Voorhis of California. Voorhis, like Fisher and Binderup, was an active participant in the League's breakfast broadcasts, he inserted the League's material in the "Congressional Record," and he regularly introduced a bill in Congress incorporating the League's and Fisher's program. Voorhis is an advocate of fiat money; he would have the government buy up its securities with such money; he seems to see no difference between government securities and fiat money; and he appears to support all that Professor Fisher proposes.

The name of the Constitutional Money League rested upon an utterly unwarranted interpretation of the meaning of the "value of money" clause of the Constitution, and the League's members and supporters repeatedly reiterated the fallacy involved.

They insisted that the Constitution reposed in Congress the responsibility of regulating the value of money, that this meant that it was the duty of Congress to stabilize the price level, that since the price level fluctuated Congress was remiss in its duty, and that only the government (Congress) had the authority to issue money. Money not issued by Congress or its agent was not Constitutional money. The view as to what was good and Constitutional money was stated by Voorhis at one of the League breakfast broadcasts as follows: ". . . What we are trying to do is to work toward that greater ideal of a truly free America in command of our own economic destiny, which was expressed . . . in the issuance of lawful money by Abraham Lincoln. . ."—that is, greenbacks or fiat money. ("Congressional Record," March 3, 1939, p. 3183.)

All these contentions as to the meaning of the "value of money" clause of the Constitution were figments of imagination and utterly wrong. That provision of the Constitution refers solely to the power of Congress to fix the weight, fineness, and alloy of the standard monetary unit and of other coin, and the character and denominations of our various kinds of money. Even Professor Fisher, in his "100% Money," fell into the same error of misinterpretation of the monetary provisions of the Constitution as did Voorhis and other members of the League.

As recently as July 2, 1945, Rep. Voorhis made a speech in the House on "A Bill to Prevent Inflation and Deflation and Answer America's Debt Problem." This speech repeats practically all the major contentions of the League and Fisher, and is being circulated by Professor Fisher in the latter's recent efforts to drum up support among "the 4,069 economists, bankers and economic students who received such cards."

The Leland-Seltzer-C. E. D. Treasury-Certificate "Reserve" Programs

Whereas Professor Fisher and Rep. Voorhis would compel the banks to exchange their government securities for fiat paper money, Professors Leland and Seltzer and six economists of the C.E.D., in recent proposals, would require the banks to exchange part of their securities for special Treasury certificates which would be counted as "reserves" against their deposits—"reserves" in addition to the present reserves. The total "reserve" ratio need not necessarily be 100%, although it could be. Professor Seltzer suggests a flexible certificate "reserve" ratio, perhaps a 50% "reserve" on the average, this to be in addition to present reserve requirements. He suggests that the precise percentages might be left to the Federal Reserve authorities who would operate within limits specified by Congress. He also suggests that banks with deposits of less than $1 million be exempt from the certificate "reserve" requirement.

The Seltzer-Leland-C.E.D. recommendations seem to have enough in common with the Fisher-Voorhis-Constitutional Money League 100% money and reserve program to warrant consideration of them as a variation, if not a lineal descendant, of it.

The Leland proposal was published in an article entitled "The Government, the Banks and the National Debt" in "The Commercial and Financial Chronicle" of January 17, 1946. It was an address made by Dr. Leland before the Institute of Business and Economic Problems, the University of Pittsburgh, January 16.

The Seltzer proposal, on which the Leland plan seems to rest,* was presented in a paper entitled "The Changed Environment of Monetary Banking Policy" at the convention of the American Economic Association, Cleveland, January 25, 1946, and printed in excerpt form in an article, "A Uniform Treasury Certificate as Bank Reserve," in the "Commercial and Financial Chronicle" of February 28, 1946. He had also presented the idea in two other publications, in 1940 and 1944, and Leland was acquainted with his proposals. "The American Banker" of February 4, 1946, reports that Seltzer was "borrowed" last summer from the Reserve Board by the Federal Reserve Bank of New York and that his plan in its latest form was written under the auspices of the bank, not the Board. "Seltzer then returned to his post in Washington," reported "The American Banker," which went on to say that "Seltzer's plan is looked on with favor by certain members of the Board staff, including E. A. Goldenweiser, who is listed as an economic advisor to the Board. . . ."

The C.E.D. committee of economists—Melvin G. deChazeau, Albert G. Hart, Gardiner C. Means, Howard B. Myers, Herbert Stein, and Theodore O. Yntema—published their recommendations in "Jobs and Markets" (The Committee for Economic Development, 285 Madison Ave., New York 17, N. Y., March 1, 1946), and it seems reasonable to suppose that they rested in large part upon the Seltzer, Leland, and Robinson plans which had been published earlier, although none of these preceding proposals is mentioned.

The Seltzer Proposals

Whereas the Fisher plan would supply the banks with fiat money at once, the Seltzer proposal is considerably more indirect, and, apparently, could call into existence little, much, or no fiat money. He says that his proposed Reserve Certificates "would be payable [by the Treasury] upon the demand of any bank," but he does not specify the type of money in which the Treasury is to redeem them. It would appear that if the demand for redemption should be heavy, the Treasury would be compelled to redeem them in fiat money. The silence of Seltzer on this point raises the question as to whether he is consciously or unconsciously offering a plan which conceals a road to fiat money. He does not think that the demand for redemption would be heavy "barring a deflationary policy by the Reserve System." That statement seems to imply that all the causes for deflation and a widespread demand for redemption would emanate from the Reserve System—a type of statement that fits well within the thinking and program of the Constitutional Money League.

Professor Seltzer recommends that the Treasury rather than the Reserve banks be the depository for these new "reserves," and adds that "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." (These deposits would bear interest because the Reserve certificates would bear interest "at perhaps 1%"—a rate which he thinks Congress, not the Treasury, should specify.) This would make the Treasury a, or *the*, central banking institution for the banks of this country. Just what the logic or virtue in such an arrangement would be is not clear. This proposal, like that of the Constitutional Money League, would put the Treasury still further into the banking business.

Seltzer's recommendation that Congress rather than the Treasury fix the interest rate on these Treasury Reserve certificates, lest the Treasury be "charged with imposing too low a rate," raises the question as to why Congress would not fix an even lower rate or abolish it completely. There are some Congressmen who would try to do it; and to place that power in the hands of Congress is among the things that the Constitutional Money League and other fiat money advocates desire.

In outlining what he insists are the virtues of his proposal, Professor Seltzer says: ". . . the large aggregate reserve requirements would promote a stability in the volume of deposits approaching that of a 100% reserve system." Much of his argument and the implications involved seem to fit rather neatly within the framework of the Fisher-Voorhis-Constitutional Money League 100% reserve plan.

There are variations between the Seltzer and Fisher-Voorhis proposals, but whether or not they are basically very significant is probably a highly debatable question. In any event, Rep. Voorhis seemed to regard the government-certificate "reserve" proposal sufficiently in harmony with his ideas of how the government should manage this country's currency supply and banks to justify his endorsement of it. He said ("Congressional Record," Mar. 18, 1945, p. 2426): ". . . In the interest of our country, in the interest of controlling inflation, in the interest of solving the problem of debt, get the banks out of the Government's business of creating money. At the present time the holdings of all the banks of cash and Government securities is substantially in excess of the total amount of their demand deposits. If we permit the Government bonds to be counted as part of the required 100% reserves, we would freeze these bonds in the bank vaults and prevent their becoming a base for a further multiple expansion of bank credit money. For the time being, the banks could receive the interest, but since the bonds would, in effect, have been monetized as part of reserves, therefore when they came due, they could and should be replaced with cash money created by the Government without capital debt, interest charge or taxes. This money would take the place of the bonds as part of the 100% reserves in the banks behind all their demand deposits. Then we would be safe from uncontrolled inflation. Then every bank in the Nation would be forever safe from runs or failure. Then we would have reduced our national debt to manageable proportions and have lifted a tremendous and . . . completely unjust burden from the backs of the American people."

Professor Seltzer says that "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." If that means anything it means a recommendation that Washington manage, or attempt to manage, the "country's volume of bank deposits and rate of spending."

He says further: "A permanent market at a low interest rate would be assured for that part of the increase in debt which was to be absorbed by the commercial banking system." Although one of the purposes of the Seltzer plan is to strengthen the position of the banks which now find themselves with large holdings of low-interest-rate securities and an inordinately small ratio of capital accounts to their deposits and their holdings of government securities, with all the risks involved, his plan is designed to perpetuate these low, or lower, interest rates and to provide the Treasury with "a permanent market" at such rates.

Professor Seltzer also points out that "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. . . ." If there is any known valid argument for such a procedure this author is not acquainted with it. That is the road that Germany took during and after World War I and which led to the destruction of the value of her currency. Nation after nation has headed into serious trouble by pursuing that course. This recommendation of Professor Seltzer also fits into the desires of the fiat money-"managed" currency-Federal Monetary Authority—100% reserve group.

Professor Seltzer insists that his suggestions are in harmony with the "far-reaching shifts in the climate of opinion" and with "the

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*Leland was also acquainted with Roland I. Robinson's "Monetary Aspects of National Debt Policy," Public Finance and Full Employment (Board of Governors of the Federal Reserve System, Wash., D. C., Dec., 1945), in which Robinson, of the Board's staff, presented a similar plan.

The 100% Money and Other "Reserve" Proposals

(Continued from page 1659)

rise of new Governmental tools for deliberate exertion of monetary influence not yet coordinated with Federal Reserve machinery." One may well ask just what or whose opinion is worth while in matters of this sort? Is any opinion of any value that is not based upon well-tested experience and principles? Does merely a change "in the climate of opinion"—whatever that may mean—prove that a certain procedure in Treasury and banking affairs, no matter how bad it might be, should be adopted? Does "the rise of new Governmental tools for deliberate exertion of monetary influence" prove that they are wise and should be continued? The answers to these questions would seem to be obvious.

The Seltzer plan is fundamentally another proposal for more monetary management by the Federal government. The government's tools of monetary control are "not yet coordinated with Federal Reserve machinery," so Professor Seltzer offers a program to "coordinate" the banking system with Treasury policy. The unfortunate results which the world has seen again and again when a nation's banking structure has been "coordinated" with Treasury policy constitute a dark chapter in monetary and fiscal history.

Professor Seltzer says that "A new question arises respecting the legitimate level of bank earnings when the latter are mainly derived from Government securities." Who raises this question, and why should it be raised? Although it is raised by the fiat money advocates in and out of Congress, there is no valid reason for doing so. Just why a bank as a purchaser of government securities should be treated less favorably than any other purchaser is far from clear. A bank probably performs more service in connection with its purchases than does any other buyer. The notion that there should be such discrimination seems to rest upon nothing more than an anti-bank psychology. The problem here is not the size of bank earnings on government securities bearing an abnormally low interest rate but, rather, the dangerously low ratio of the banks' capital accounts to their deposits and investments in government securities. Peculiarly enough, Seltzer makes no suggestion that the banks increase the ratio of their capital against their deposits and holdings of government securities.

Professor Seltzer raises a question as to "the legitimate level of bank earnings when the latter are mainly derived from Government securities" by stating a proposition that is incomplete and inaccurate. He says: "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 [extend so much credit to the Federal government]." It is not a question of the banks providing a "better known" credit but a matter of the banks providing a *usable* form of purchasing power, against which they are required to maintain adequate reserves, in exchange for a form of credit that is not usable as a medium of exchange.

Furthermore, just what sort of standard does Professor Seltzer employ when he speaks of "the legitimate" level of bank earnings? Do we have a law that warrants his use of the word "legitimate"? Or does the word "legitimate" arise from some ethical notion that he may have as to what should be the maximum earnings of banks? Does not all this imply that Professor Seltzer is one of those who would sit in judgment on what "legitimate" profit margins for this and that business and person should be, and that he is one of those who is not willing to leave this matter to the forces of competition? Does it not imply acceptance of the profit-management concept?

Why Professor Seltzer should call his proposed Reserve certificates bank "reserves" is one of the puzzling aspects of his plan. This raises the fundamental questions as to what are the nature and functions of bank reserves. If reserves are, or should be, in the form of money (or a deposit which can be converted into money), that can be paid out upon demand, then Seltzer's government certificates would not be bank reserves; they would be, instead, a particular type of non-reserve bank asset. He is not dealing with bank reserves, if that term is to be used in any reasonable sense. What he proposes is a plan to inject much greater inflexibility into bank investments while it is greater flexibility, not less, that is needed.

It is quite true that, with the passage of the law of June 12, 1945, which made gold certificates alone lawful money for reserves in the Federal Reserve banks, Congress, apparently unwittingly, legislated into existence a reserve that cannot be paid out. But that bad piece of legislation provides no legitimate reason for making the situation even more irrational by calling government securities "reserves," particularly when they cannot be paid out to depositors upon demand and since the depositors would want cash, not government securities.

The argument which Professor Seltzer uses in defense of converting part of the banks' government securities into "reserves" involves a false analogy. He says: "Just as it [Congress] formerly required that national bank note currency be secured by United States bonds bearing the circulation privilege, Congress could require all banks . . . to maintain, in addition to other reserves, . . . reserves in the form of special Reserve Certificates or Reserve bonds. . ." Security and reserve are two different things. National bank notes were money, and the securities behind them were not "reserves"; they were securities which were to be liquidated at the time of the retirement of the bank notes. Demand deposits are supposedly payable in money on demand; and securities do not and cannot perform this function.

Professor Seltzer says that "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." Precisely so. It would make the Treasury the Dictator. It is the Federal Monetary Authority idea of the Fisher - Voorhis - Constitutional Money League group. It is centralized, Federal, Executive, totalitarian management of our money, banks, credit, and prices.

The Leland Proposals

Professor Leland made two recommendations "for consideration." One was for "legislation providing a special non-marketable security for bank ownership." This is simply the Seltzer plan with very minor variations and, therefore, except for the following observation, calls for no additional comment.

Dr. Leland says that "What this plan amounts to is not a freezing of 'governments' in the banks but rather the establishment of a minimum reserve in government bonds applicable to all banks." It is the opinion of this author that just the opposite is the case: The plan *would* freeze government securities in the banks, and it would *not* provide a "reserve," if that word is used in the appropriate sense.

Professor Leland's second recommendation was also in the Seltzer proposals but treated somewhat incidentally by him. Leland makes it item No. 2. He says: "A second suggestion is to permit the Treasury to borrow directly from the Reserve Banks whatever funds are required to finance the government. In the coming years, therefore, the Treasury would borrow from the Reserve System enough to pay off its obligations to the commercial banks."

The thorough unsoundness of any such procedure as that has already been pointed out. Anyone who wishes to satisfy himself on this point might well begin by consulting Kisch and Elkin, "Central Banks" (Macmillan & Co., Ltd., London, 1932 ed.), pp. 20-23, 28, 37. For example, those authors say (p. 22): ". . . If the control of the operations of the central bank lies directly or indirectly with the government, it becomes fatally easy for the government to finance itself for a time by means of book entries and short loans from the bank, a course which is the first step toward currency depreciation and inconvertibility." They say further (p. 22): "There can be no question that the power of the government to force increased loans from the Bank of France intensified the depreciation of the franc and contributed to the financial crisis which culminated in 1926." They say still further (p. 37): ". . . It is of cardinal importance that it should be made as difficult as possible for the government to resort to the expedient of borrowing from the bank, a practice which, if continued, can only lead to a repetition of past disasters."

The proposals of this type as advanced by Leland and Seltzer fly in the face of such evidence as that presented by Kisch and Elkin and others.

Professor Leland continues: "This plan, while it sounds radical, is really only an extension of the present system under which the Treasury has sold Treasury bills to the banks which, in turn, have sold them to the Federal Reserve Banks. The Treasury might as well have borrowed directly from the Reserve System in the first place." That notion simply overlooks practically every major principle involved in the proper relationship of a central bank to its member banks, and the part which a government, seeking and spending funds, should play in the nation's money markets.

In one sentence Leland seems to recognize the danger in his proposal when he says: "The plan might prove beneficial in operation or it might be a calamitous failure." Nevertheless he recommends it and argues for it.

Leland's recommendation in the face of existing evidence as to its dangerous aspects, especially when the government has "peculiar" notions as to the virtues of spending and debt, brings us back to the observation made at the beginning of this analysis that we in this country seem to be laboring under a peculiar disease in the field of money—namely, the perpetual attempt to solve some monetary, banking, or other economic problem by offering some old and well-established fallacy, perhaps in a different garb, as a "new," or "bright," or "progressive," or "promising" solution.

The C. E. D. Staff's "Security Reserve" Recommendation

This proposal was contained in a study by a research staff of the Committee on Economic Development on "Jobs and Markets" (released March 1, 1946), devoted to the matter of "how to prevent inflation and depression in the transition." In Chapter VI, on "Money, Credit and Public Debt in the Transition," and in other sections, the authors reiterated much of the argument and program presented by Professors Leland and Seltzer, and also recommended, under the name of "'Security Reserve' System," a program for freezing government securities in banks and for creating a central monetary authority under the President which "should be charged with developing and directing a unified program of fiscal, monetary and price control action to maintain price stability and high employment in the transition."

Although the recommendations of this group follow closely those of Leland and Seltzer in several respects, there are differences that warrant comment.

To control bank credit expansion, this Committee of six economists offer three alternatives: (1) "The 'reserve' quality of government bonds can be reduced by eliminating their automatic convertibility into legal reserves"; (2) "The 'excess reserve' quality of government bonds can be eliminated by converting them into required reserves of the present non-interest-bearing type"; and (3) "The 'excess reserve' quality of government bonds can be eliminated by converting them into required reserves of a new interest-bearing type." It is the third, which they call the "'Security Reserve' System," that the authors recommend; and that is, in several of its essentials, the Leland-Seltzer-Robinson plan.

Alternatives (2) and (3) involve the same misuse of the word "reserve" as is found in the Leland-Seltzer recommendations. At one point the C.E.D. group seem to support "a proposal" to offer "a special form of government security which banks can hold, dollar for dollar, against savings deposits—other reserve requirements being waived for deposits so backed. . . ." The question naturally arises as to how these depositors are to obtain cash when they want it if there is nothing but government securities held against their deposits.

Unlike Professor Seltzer, the C.E.D. group do not appear to recommend that the Treasury be the central banker to hold these "reserves." But in another way they go about as far as anyone could go in recommending centralized - executive - dictatorial - totalitarian control over this country's fiscal, monetary, and price policies.

This is what they say (p. 70): "What is most important is that there be an effective body specifically responsible under the President for coordinating fiscal, monetary and price policy during the transition." They also say (p. 70): "It is particularly important that tax policy, expenditure policy, banking policy and debt policy be fused into one effective, flexible instrument of monetary-fiscal policy.

"Coordination of policy at this level will require special machinery. It means the development and operation of a single program which involves major policies of the Treasury, the Federal Reserve, the price control agency and certain other government agencies. Essentially, responsibility for such coordination rests with the President. . . . There is need for an instrumentality to prepare an integrated program for review by the President and to see that the various parts of the approved [by whom?] program are carried out at the proper time." And further (p. 81): "The monetary authorities should be enabled to expand or contract the money supply to stimulate or limit demand."

Despite the many and extreme recommendations which the advocates of a government-managed economy have been making, and striving to make effective, in this country in recent years, it seems doubtful that anyone could devise a scheme for a more centralized, dictatorial, and totalitarian form of executive control over monetary, price, and fiscal affairs than that proposed by this C.E.D. committee of economists. Although much is said by this Committee about these programs, or various aspects of them, being designed for a "transition" period, it would seem to be quite clear that if a program such as this should ever be adopted the "transition" would have been effected, and that it would be a transition to a state of affairs which only the advocates of a totalitarian government pretend to want.

MacNaughton Heads Portland Reserve

The election of E. B. McNaughton (President of the First National Bank of Portland, Ore.) as a director of the Portland Branch of the Federal Reserve Bank of San Francisco was announced on March 8 by Harry R. Wellman, Deputy Chairman of the San Francisco Reserve Bank, it is learned from advices in the Portland "Oregonian," by its financial editor Frank Barton, from which we also take the following:

Mr. MacNaughton fills the unexpired term of Charles H. Stewart, President of the Portland Trust & Savings Bank, who was recently elected to the directorate of the head office of the San Francisco Reserve Bank. The term to which Mr. MacNaughton thus succeeds runs until Dec. 31, 1947.

Mr. Stewart was originally named to the directorate of the Portland branch of the Reserve Bank in June of 1945 to fill the vacancy caused by the death of Paul S. Dick, Chairman of the Board of the United States National Bank. He was reappointed at the end of the year.

When he was elected last month to represent the group of banks with capital ranging from $150,000 to $1,000,000 on the board of directors of the head office of the Reserve Bank there was a resulting vacancy on the board of the Portland branch of the Federal Reserve Bank.

Besides Mr. MacNaughton, other members on the board of the Portland branch of the Reserve Bank include D. L. Davis, who is managing director; W. H. Steen, Milton, Ore., wheat grower; and William C. Christensen, President of the Commercial National Bank of Hillsboro. Mr. Steen is Chairman.

Banks Aid NY State Small Business Program

More than 700 New York commercial banks of 62 local and regional bankers associations have been invited by the New York State Bankers Association and the New York State Department of Commerce to participate in the New York State program for developing and expanding small business.

A series of four special advertisements featuring banking aids for small business, a booklet, "Financial Services for the Small Business," posters for window and lobby display, and suggested local news stories constitute the "kit" of informational material developed to help bankers let small businessmen know that the banks are ready to aid them with credit and business counsel.

The goal of the program, says the Bankers Association, is the creation of 100,000 new businesses to more than offset the 100,000 small enterprises that closed during the war and to provide for what might have been expected as the normal growth in that field in New York State during the same period.

The Postwar Boom In Capital Goods Industries

(Continued from page 1635)

great depression, private gross capital formation amounted to $11.6 billion. Between 1923 and 1929 inclusive, private capital formation exceeded $15 billion annually except in 1924, when it was $13.3 billion. I mention these figures because they seem to me to be a significant revelation of the importance of psychology. Industrial production in 1937 was just as high as in most years of the late twenties, yet private capital formation never recovered its earlier levels. It may be argued that some of the private investment in 1928 and 1929, resulted in over-capacity. But it can hardly be denied that investors in 1937 lacked confidence that a high level of activity would continue and that private investment could safely be made.

Wartime Developments

The first step in discussing the outlook for capital goods industries is to consider what has happened since 1939. The wartime expansion of plant and equipment, financed by both Government and private funds, has a bearing on the outlook.

Some observers point to the fact that $23 billion were spent for plant and equipment between July, 1940, and June, 1944, of which $15 billion represented Government funds. Since this expenditure was so large, they conclude immediately that substantial over-capacity already exists. This conclusion is emphasized even after allowance is made for the fact that many plants may be kept in a standby condition, and that others were poorly constructed or for some other reason cannot be converted to peacetime production.

Before accepting this conclusion, I believe we should analyze the previous relation between industrial activity and plant construction. This will help us to measure excesses or deficiencies of the war period, and to relate these to the level of activity expected for the longer-term postwar period.

During the past twenty-five years there has been a very close relation between non-residential building and the general level of business activity. In fact, there have been two distinct patterns, one that held good during the twenties and one that applied to the recovery period following 1933. The same level of business activity in the latter period generally inspired a somewhat lower level of construction activity. This is easy to understand, since during the twenties many business men thought prosperity was here to stay. This faith in the future suffered a great shock during the great depression.

If we use these past relations to measure the actual expansion of plants against the level of business activity during the war period, we reach a definite and encouraging conclusion.

The volume of Government and private construction combined, during the years 1941 through 1944, seems to have been about $10 to $12 billion less than would normally have been undertaken by private businesses in order to meet the expanding level of business activity. If, in addition, one makes allowance for those plants that cannot be used in civilian work, he is forced to conclude, for the next few years at least, that there will be a high level of non-residential building. Furthermore, he must make allowance for the fact that expansion in this field will be limited in 1946 by Government attempts to guide building materials into badly needed housing. It would seem, therefore, that non-residential building at a high level can be counted on to continue at least through 1950.

Private Expenditures for Producers of Durable Equipment

Very similar conclusions apply to the outlook for industries producing durable equipment. Private purchases of such equipment in the past have also been closely related to the general level of business activity. A study of these past relations provides convincing evidence that combined private and Government purchases of durable equipment during the war were much less than would normally have been made by private industry in order to achieve the wartime levels of industrial activity. There is an accumulated demand rather than a surplus.

Naturally, all producers of machinery and durable equipment will not find themselves in the same position. Even though needs for some types of equipment may be substantial, it is quite possible that surpluses of other types will press on the market for many years to come. While each commodity must be studied individually, it is at least possible to take a typical example and see how much weight should be given to the effects of Government owned surpluses in making estimates for the future.

The situation becomes plain if we attempt a little mental arithmetic in connection with machine tools.

Total shipments of machine tools between 1940 and 1945 inclusive were valued at about $4,600,000,000.

Of this total, however, more than 1¼ billion dollars worth were exported.

In addition, it has been proposed that about $800,000,000 be kept in stand-by condition.

Moreover, it can be estimated on the basis of past relations that almost 1½ billion worth would have been purchased during the six year period, given the levels of industrial production that existed then. In fact, this is probably an under-estimate, since it makes insufficient allowance for a high rate of depreciation that comes about through three shift operations and inadequate maintenance.

Furthermore, it is estimated that more than $300,000,000 worth of the original total are special types of tools for which postwar demand will be negligible.

If all these deductions are made, the original figure of $4,600,000,000, which seems to indicate a tremendous potential surplus, has been reduced to about $750,000,000. But still further reductions must be made. Many of these tools will be sold to institutions that do not ordinarily buy new machine tools. Many of them will go to regular purchasers of used tools. This remainder also must be assumed to contain all those tools that were most mistreated and are in the poorest condition, which will limit their marketability. Finally, there is the general inefficiency of surplus disposal and a continuing possibility that some of the tools will be shipped abroad.

The net result of these calculations, for which exact accuracy is naturally not claimed, is to reduce the shockingly large total fo $4,600,000,000 to a final figure that almost certainly will not be larger than two to three hundred million, or quite possibly smaller. In other words, this last figure is the magnitude of the surplus that might affect the position of producers and the disposal of even this amount is likely to be spread out over a period of years.

Political Trends

Political trends have a vitally important bearing on the outlook for capital goods industries. I refer here not to day to day actions of Congress, the fluctuating policy of the Administration in connection with wage and price controls, or even the outcome of Congressional elections this Fall. Rather, I refer to the political philosophy that influences the attitudes and activities of the Government.

I shall not dwell long on such an unpleasant topic as the last great depression. It must be mentioned, however, because it led many people to accept an economic philosophy that can most aptly be described as "defeatist." Many of those who influenced or helped make policy became convinced that our economy had grown older, and that having reached its maturity, it no longer possessed resiliency and the forces of expansion that in earlier generations had led to successively rising levels of production and living standards.

It is not my purpose to argue the pros or cons of this theory. The mere fact that it was widely held in Government circles was bound to discourage private investment, since the theory stressed the need for an expanding level of public investment. The uncertainties that this entailed, the fact that public investment polcies could not be or were not projected into the future, so that business men would know precisely where the "public domain" began or left off, had the effect of making investors cautious. The confidence on which private investment is based was undermined.

The important fact at the moment is that this theory has been or is being discredited, so far as policy-making circles influential in the Federal Government are concerned. This is the net result of economic developments during the war period. The economy showed dramatically that it possessed a tremendous potential for expansion. Fewer people now regard the economy as "mature" or in need of stimulation. The mere fact that this earlier belief is no longer widespread automatically removes an important restraint from private investment. Technological advance will be stimulated.

How long this will continue can hardly be answered unequivocally at this point. My own opinion is that it will continue for at least five or six years and quite possibly for several years longer. All the studies my organization has respect for the expansive powers to the belief that industrial production will average 50-70% above prewar for this period of time. Activity will be higher than in any other peacetime period. It is my belief that the new-born respect for the expansive powers of private industry will live at least as long as this high level of activity continues.

Unemployment

Unfortunately, I am not convinced that this high level of production and business activity will fully absorb all those who are looking for work. Five million people will probably be unemployed by mid-year and this number will be substantially increased in the years to come. A modified "Full Employment Bill" has been passed by Congress and there is little doubt in my mind that some form of action will be taken under its authority. I merely express the doubt, in view of current political trends, that this administrative action will be disturbing to the psychology of private investors to the extent that it would have been in the prewar period.

Exports

The present moment is not a propitious time for any speaker who finds it necessary to say anything about exports. We are in the midst of our first great postwar crisis. Millions of people believed, six or eight months ago, that an international organization could consistently and easily settle differences between the great powers. Having experienced their first disillusionment, they are now confused and disturbed. In many cases I believe their judgment is somewhat warped at the moment. Without wishing in any way to minimize the difficulties our foreign policy will encounter, I must nevertheless warn against the more exaggerated fears that have been so freely expressed in the past few weeks. Since the foreign political trend will have a bearing on activity in the nation's capital goods industries, the possibilities must be examined.

First of all, let me say that the chance of a conflict between Russia and the United States in the near future seems to me to be exceedingly remote. Russia knows as fully as we do that the United States is at the moment the strongest military power in the world. I have heard the Russians accused of many things; but I have never heard them accused of the type of stupidity that would lead them to commit national suicide. If they use extreme measures, which seem to invite retaliation, if not war, in order to achieve certain national purposes, it must be, I believe, because they are convinced that the United States will not begin a war, and will enter one only if attacked.

The fact that these sharp differences in national objectives have created so great a disturbance so openly and so soon after the war has ended will, however, have some effect on national policy. In this period of uncertainty, when our foreign policy is being shaped, it seems highly doubtful that the Federal Government would permit actions depressing to the capital goods industries. I do not believe that the risk of surplus dumping was ever very great, and I believe it is even less now.

Some of you may find the preceding remarks far from reassuring. While I have expressed a positive belief that no armed conflict between the great powers is imminent you may well ask me whether it may not come within a period of five or ten years. I believe we would all be making a mistake if we tried to make up our minds about that point at this time. It certainly does not seem to me to be inevitable; and I am sure that anyone who contemplates the consequences of another world war will earnestly seek some means of averting it. It seems quite possible to me, even probable, that the present crises in Western Europe, the Mediterranean, the Near East and the Far East will run their course, although perhaps not without some fighting by smaller powers, reaching a conclusion that may provide an opportunity to reach more general agreements, even if on a modified basis. Should this be the case, the period will have come when a more accurate estimate of export possibilities can be made.

One of the most basic facts in the world economy at the moment —and one that helps to explain current political tensions—is the fact that all the world desperately needs industrial supplies and the only place where they can possibly be obtained within a reasonable period of time is the United States. We should not lose sight of the fact that the need for industrial goods of all kinds is tremendous.

I shall not attempt any forecasts of exports at this point. Quite obviously their volume depends greatly on political developments abroad, and any forecasts made at the moment might tend to be on the pessimistic side. Their volume also depends upon the credit policy of the United States, which could only be appraised in terms of political settlements that are still to be achieved.

Conclusions

Looking forward to 1950 I believe we must conclude that the outlook for capital goods industries is the most favorable in the nation's history. Based on the expectation that total industrial activity will be 50 to 70% above prewar, the average gain for capital goods industries will probably be between 100% and 200%.

Although important uncertainties connected with political conditions abroad and with exports of durable equipment exist, at the moment, and may continue for some time, this is not likely to invalidate the above estimate. If we assume, on the one hand, that the period from now through 1950 will be one of continuous war scares, this is bound to have an effect on Government expenditures for defense purposes and, therefore, to maintain high level activity in capital goods industries. If we assume, on the other hand, that the present crisis will be followed by a period in which more encouraging progress will be made toward international understanding, then we must expect that exports of durable equipment from the United States will expand sharply.

Ellsworth to Open

CORPUS CHRISTI, TEX.—C. Bruce Ellsworth will engage in an investment business from offices at 615 North Upper Broadway. Mr. Ellsworth has recently been serving in the armed forces. In the past he was with W. J. Lackey & Co.

Municipal News and Notes

The municipal bond market has been an anomolous affair during the past month or so, in the sense that despite the marked letdown in the pace of distribution, bidding for new business has continued exceptionally keen and at levels which sharply belie the manifest indifference of investors to dealer offerings. In this situation, moreover, the price level has remained substantially unchanged, although the period in question has witnessed a precipitate decline in the stock market and an easier tone in the market for Governments.

Factors in the stability displayed in the tax-exempt field include the reinforced conclusion that (1) the Treasury is as firmly wedded as ever to the policy of keeping the level of interest rates to a minimum, and (2) the mounting evidence that the prospects form a greatly enlarged supply of local tax-exempts, in consequence of post-war improvement programs, etc., are far from promising.

This latter fact has been clearly evidenced in the results of operations during the first two months of the current year. The total output for the period has been no more than $151,266,598 and represents but a relatively slight gain over disposals of $135,934,588 in the comparable 1945 months. These figures suggest that States and municipalities, for one reason or another, have not been able, or disposed, to indulge in new debt operations on other than a moderate scale. Moreover, judging from the increasing reports of bond elections, the chances are that no material improvement on the supply side is likely to develop until some months hence.

Among the recent items of interest was the highly successful award of $3,142,000 series A refunding bonds by the Yonkers Municipal Housing Authority. This operation was twice significant in that the agency disposed of the bonds on the lowest interest cost ever achieved in the sale of obligations of that nature and the fact that the Mulford Gardens project, for which the financing was undertaken, become the second low-rent housing project to be financed 100% by direct private capital.

This latter point was emphasized by Philip M. Klutznick, Commissioner of the Federal Public Housing Authority, who noted that the proceeds of the issue would result in the retirement of the Government's entire capital investment in Mulford Gardens, consisting of $919,000 3% series B bonds held by the FPHA. Furthermore, the Yonkers unit was able to refund the $2,223,000 of series A previously acquired by private investors at an average rate of 2.06%, which compares with the average of 1.2428% at which the latest issue was marketed.

The total of $3,142,000 bonds covers the entire development cost of the project, except for $258,000 bonds that have already been or are soon to be retired, according to Mr. Klutznick.

The first low-rent housing project to be similarly financed entirely by private capital, incidentally, is operated by the New York City Housing Authority, which is currently asking for sealed bids until April 2 on an issue of $1,400,000 Jamaica Bay Houses bonds. This issue will mature serially from 1948 to 1952 inclusive, and the bidder is asked to name a single rate of interest of not more than 1.20%.

As the bonds are additionally secured by guarantee of the City of New York, the indications are that the Housing Authority will be able to market the loan on a strikingly attractive basis. The Authority, by the way, will open bids today (Thursday) on a total of $9,100,000 temporary notes, bearing date of April 17, 1946, and maturing on April 17, 1947.

Arnall Predicts Prosperous South

Governor Ellis G. Arnall of Georgia, who has been much in the news of late by virtue of his campaign to obtain uniform freight rates throughout the country, recently expressed the view that the South is destined to lead the nation on its way to permanent prosperity. During the course of a radio broadcast, Mr. Arnall declared that the South has made substantial progress in the eight years since the late President Roosevelt described it as the nation's number one economic problem.

"Our people," Georgia's Governor asserted, "are turning to dairying, beef-cattle raising, timber-farming—and I mean literally growing trees as a regular crop—to replace cotton as a source of income."

"We have developed some new and wholly non-competitive industries based upon wood, pulp and plastics. We have pretty well eliminated the farm and home mortgage debt in the South."

Reporting that 300 new industrial plants were established in Georgia last year, Arnall said "there is a definite trend toward decentralization of American industry."

Thomas Doyle Joins Staff of Lobdell Co.

Thomas F. Doyle, formerly captain, A. U. S., has become associated with Lobdell & Co., Inc., 20 Exchange Place, New York City. Prior to military service, Mr. Doyle was with G. M.-P. Murphy & Co.

The Marketing of The World Bank Bonds

(Continued from page 1633)

competition by the Bank with private sources of capital; and (4) that the managers of the Bank will be careful to achieve all feasible economies in the costs of distribution, in the interest of the Bank as well as that of investors in the bonds, and of the borrowers.

Debenture Bonds to Be Offered

The offering of debenture bonds is likely to be the principal marketing operation of the Bank for the foreseeable future. Among the reasons for this likelihood are the known preference of investors for direct as against contingent or guaranteed obligations and the fact that the Bank's own bonds are an unconditional promise of interest and principal for a definite stated period whereas the guaranteed bonds are not. This arises because of a provision in the Bretton Woods Agreement on the Bank (Article IV, Section 7) under which every bond guaranteed by the Bank must carry a statement that it can be paid off at par at the discretion of the Bank's directors in case of default. This may cause some concern to those investors who are particularly interested in long term issues, such as insurance companies, and may also limit market premiums on guaranteed bonds as compared to the direct obligations.

There is, however, an argument put forward in some quarters to the effect that the guaranteed bonds of the Bank would have a higher investment rating than its direct obligations. This argument rests in part upon a calculation that in the event of a necessitous liquidation of the Bank and only partial meeting of its total liabilities, the creditors who hold guaranteed bonds would fare better than those holding its debentures. The merits of this calculation are not here in question, nor the probability that any such inequity could be cured in the drafting of the indentures on each type of obligation. If, however, this inequity should turn out to be unavoidable, without some radical amendment of the Bretton Woods Agreement, it would seem to provide another basis for anticipating that the direct method of financing would be preferred. Surelythe Bank's directors will not wish to create different types of loan instruments which carry such disparate rights to their holders.

No Underwriting

It seems quite evident that the Bank's directors will not consider any distribution procedure which involves the underwriting of the risks on offerings of its bonds. This should be evident not only because the Bank's obligations should in the course of a short time find a ready market, but also because it would appear to be an act of excessive condescension involving unnecessary expense for an institution of the dimensions of the International Bank to enlist the more limited resources of private banking institutions in this way.

There is, however, a very important function for the investment banking industry to perform in the offering of the Bank's bonds and that is the distribution and actual selling of them. In the early period of its operations, at least, the International Bank will probably call upon these services of private bankers. Investment bankers will probably greet this prospect of business quite enthusiastically particularly in view of the current and prospective scarcity of new domestic securities offerings and the probability that most of the foreign financing will be placed through the Bank for some time to come.

At present there is evidence of a wait and see attitude toward the Bank and its program on the part of some of the banking institutions in the large financial centers. On the other hand, there is an active group of investment men, particularly those attached to the large commercial banks, who are more alert to the potentialities of the Bretton Woods program and have already initiated something of a campaign to permit their active participation as dealers and distributors of the Bank's bonds. This would require amendment of the Federal banking statutes.

Bankers and Dealers as Bank's Agents

Perhaps the most generally satisfactory arrangement for the distribution of the Bank's securities would be the employment of bankers, brokers and dealers on an agency basis. This would involve the payment of commissions on the placement of the Bank's obligations. Whether or not it will be necessary to organize actual selling groups for this purpose remains to be seen. Such groups have the advantage of guaranteeing an orderly distribution. On the other hand, they preclude the entry of all firms into each offering by the International Bank. This latter *desideratum* could probably best be achieved by the Bank's giving public notice of its intended financing and inviting all interested investors and their agents to participate. This would be a kind of "first come, first served" arrangement, not very different, however, from the "special offering" procedure which has been in successful operation on several national securities exchanges for a number of years. As the bonds of the International Bank will probably be registered for dealings on a number of the national securities exchanges, this type of distribution may be found to be quite feasible.

"Tap Offerings"

Another offering method not unrelated to the "special offering" to which the Bank's managers might wish to give consideration is the "tap offering." This distribution procedure has been quite popular and successful in England in the sale of several series of national issues. "Tap offerings" provide a good method for reaching the public. The usefulness of this method depends in part upon how immediately the issuer needs funds. It may be that the Bank could use this kind of offering almost as a continuous process while concurrently raising funds for its additional needs by the specific offering of individual issues. The tap offering seems to have the added advantage of being most economical, as well as providing to the Bank direct contacts with its actual investors.

It would seem desirable from the point of view of investors as well as the Bank to keep the number of different issues to a minimum, not only as between the kinds of obligations but also as to coupon rate, amortization terms and maturity. This would enhance the liquidity of the outstanding bonds, larger issues being as a general rule more readily salable, and would also reduce the problem of educating investors on the merits of the Bank's bonds.

In view of the substantial volume of securities which the Bank will offer to the market, some have felt that a stock exchange commission might well be sufficient under present circumstances to elicit the active interest of brokers, dealers, and the bond-selling community in general. By stock exchange commission is generally meant 1/8 to 1/4 of a point—in other words, $12.50 to $25 per $1000 bond. Whether this is adequate compensation to dealers and brokers would depend in part upon how much of the educative selling the Bank management itself is prepared to undertake and how much is left to the responsibility of its agent. If the preparation of the market and the education of investors is left entirely to the personnel of the securities industry, a larger discount or commission will probably be looked for. On the other hand, if the Bank, through its staff, is prepared to "condition" the U. S. investment market, a selling commission commensurate with a simple brokerage operation may suffice.

Market Stabilization Operations

The placing of bonds with ultimate investors and the holding of them over long periods will be helped in part by the relative stability of the market for the Bank's bonds. This stability might result from the natural operations of the market itself, particularly if the Bank's bonds are widely distributed among many investors. On the other hand, stabilization operations through market purchases and sales of the bonds might also be needed, especially in the early periods. Section 8 of Article IV of the Agreement on the Bank provides for certain miscellaneous operations which include the buying and selling of securities which the Bank has issued or which it has guaranteed. The Bank itself, therefore, is vested with powers to stabilize the market for its own securities.

There are certain considerations which affect bonds guaranteed by the Bank more than its direct obligations. For example, there is the debatable proposition that the bond of any foreign government guaranteed by the International Bank would be as good as that of any other government with its guarantee. A corollary to this proposition is that any Bank-guaranteed bond of the same terms will sell at the same price in the market as any other. These are statements which will be proven true or false by the combined judgment of future investors. It may be expected, however, that the width of price disparities between different Bank issues will be attenuated by professional arbitrage or hedging transactions. Some feel, however, that any price differences in the various outstanding obligations of the Bank would make for an undesirable impression upon the public. To overcome this the Bank could have recourse to the powers of miscellaneous operations cited above and buy up issues in the market which might be offered at prices below those at which other issues, including its direct obligations, were prevailing.

Offering of Guaranteed Bonds

The method of offering and distributing bonds guaranteed by the Bank may be substantially different from that of its direct obligations. In part, this difference would stem from the manner in which the issuance of guaranteed bonds would probably initiate. While the Bank itself would probably be the judge as to how much, when and where to float its own direct obligations, its guarantees would probably be solicited from outside either by the borrowing country or by the investment bankers. It may be that a foreign government wishing to obtain funds in the U. S. capital markets will directly approach a banker. After negotiations between them, an agreement to underwrite and offer bonds to the public might be reached conditional upon the attaining of a guarantee from the International Bank. In such an event, either the representative of the borrowing country or the investment banker or both would approacn the Bank's management. In this instance the issue of bonds would probably be fully underwritten by private bankers.

Careful screening of loans which the Bank may guarantee is assured by the provisions contained in Section 4 of Article III of the Agreement. One of these provisions requires that a favorable written report upon the merits of the proposed financing must have been submitted by a competent technical committee of the Bank. These conditions in general may retard to some extent the usual rate of speed with which investment bankers in the United States are accustomed to prepare an issue for public sale. On the other hand, a procedure could no doubt be worked out whereby registration with the Securities and Exchange Commission might be undertaken concomitantly with the study by the Bank's technical committee.

The second of the conditions of Section 4, Article III of the Agreement reads as follows: "The Bank is satisfied that in the prevailing market conditions the borrower would be unable otherwise to obtain the loan under conditions which in the opinion of the Bank are reasonable for the borrower." A good question is what kind of evidence will the Bank require to satisfy it that in the prevailing market conditions a given borrower is unable otherwise to obtain a loan on reasonable terms? For example will the opinions of a selected group of commercial banks or investment bankers be received as an adequate index of the private capital market's view of a projected loan Probably the International Bank will wish to make a more careful and open canvass of the private capital markets prior to its approval of a loan than has been undertaken heretofore by other public financial institutions in the field of foreign loans. For this purpose it will have available a method which has in large part superseded the older one of direct negotiation between a borrower and a particular banker, i.e., the method of competitive bidding. This method should be peculiarly adaptable to the needs of the Bank for a procedure which is fair to all, open to the public and assures a sound appraisal of a particular issue. It is here put forward as the best method for satisfying the Bank as to whether a loan can or cannot be obtained from private investors on reasonable conditions as required by Section 3, Article III of the Agreement.

Who Will Buy the Bank's Bonds?

The preceding discussion has raised some questions and attempted to give some answers as to how the Bank might sell its bonds. There is also the question as to who will buy these bonds. The discussion has emphasized the importance of obtaining a wide distribution for them among all kinds of investors. At present, however important institutional investors are precluded from purchases of the Bank's direct or guaranteed bonds by statutes of some of the states in which they are incorporated. Most notably this applies to insurance companies and savings banks whose investments are prescribed by State laws and administered by insurance superintendents and banking commissioners. These laws most frequently take the form of a list of securities eligible for investment. Very few foreign bonds are included on these lists. The International Bank being an entirely new kind of institution and *sui generis*, its bonds are not qualified under existing State laws. Insurance companies and savings banks in many State jurisdictions are, therefore, debarred from purchasing these bonds.

Insurance companies constitute by far the largest class of investors in the United States, their purchases and holdings of municipal and corporate bonds exceeding those of any other class of investors. Savings banks are also very substantial investors in high-grade bonds. Recognizing this and believing that these institutions would welcome the opportunity to extend their investment outlets, the present restrictive state statutes with respect to the Bank's bonds was brought to their attention several months ago. Representatives of these institutions evidenced a very lively interest in the reconstruction and development program of the Bank and many expressed the view that they should be afforded the opportunity to participate in the program by purchasing International Bank bonds if they desired to do so.

It had been hoped by these early conversations that amendments to liberalize state laws would be submitted to those legislatures which were in session during the first quarter of this year. These amendments would have given insurance companies and savings banks in such states as New York, Massachusetts and New Jersey the right to invest in the first issues of the International Bank which may well be quite attractive from the investors' viewpoint. Some State authorities, however, decided to defer submission to the legislatures until after the Bank had commenced operations. As a result, the Bank's bonds will not be "legal investments" until next year's session of these State legislatures.†

Commercial Banks as Purchasers

The Bank may, however, sell its bonds to commercial banks which are not generally governed by State statutes in their investments. Commercial banks which are members of the Federal Reserve System are permitted to purchase the bonds of any one issuer in an amount not to exceed 10% of their capital and surplus. It is estimated that on this basis these banks could purchase a maximum of $600,000,000 of Bank bonds. It may well be that the Bank's directors will wish to place its early offerings with the commercial banks, particularly until individual investors are sufficiently informed to insure an active public interest in the Bank's offerings. But, in adapting its financing to the commercial banks' requirements the Bank will have to depend primarily on short-term obligations. This may be quite feasible for the Bank at the outset but eventually it will wish to refund these obligations and offer additional ones for longer periods than the commercial banks may be able to lend.

Trust Funds and Institutions

The Bank will no doubt make a careful study of all segments of the U. S. securities markets and the proclivities of other types of investors. Among these the most homogeneous and perhaps best informed group are trustees, individual and corporate. While trust funds are subject in some important states to the same laws that affect savings banks this is not so general as to preclude their present participation in the Bank's offerings to a substantial extent. In fact, it has been estimated that approximately 80% of trust funds now in being are free of the restrictions of the legal lists because of their terms. It is well known that trustees like other investors have been experiencing an increasingly difficult task in finding outlets for these funds and that much of them is now held in cash. In recent years, furthermore, trustees have by force of this circumstance become more liberal in their investment practices and have made substantial commitments in common stocks and real estate. This attitude and the pressure for new investment outlets, together with the high rating of the Bank's bonds, should give them a warm reception by trustees.

†As of the date of this writing, however, it is learned that the N. Y. State Legislature has adopted an amendment to the banking laws to permit savings banks to invest in the direct and gauaranteed obligations of the International Bank. The bill incorporating this amendment is now awaiting the Governor's signature.

Much the same reasoning applies to charitable and educational institutions. Their investments are generally not restricted by State or other laws, but only by charter provisions. These institutions have also been consuming rather sizable amounts of common stocks under pressure of idle and liquid funds and a need for higher returns than is afforded by current yields on government bonds. They also should be good customers for the Bank's bonds and they have substantial funds to invest.

Will Business Corporations Buy?

Although general corporations could purchase substantial amounts of Bank bonds, there may be considerable doubt as to how much they will actually be willing so to invest. Corporations hold enormous sums in bank deposits and in government bonds largely of short term. Their working capital held in these liquid forms has increased more than 300% since before the war and is by far the largest in history. There seems little prospect of their being offered new government issues for some time to come except in refunding. This might indicate the probability of a substantial demand for Bank bonds by U. S. corporations. But against this must be weighed the apparent penchant of corporate managements for an extreme degree of liquidity which limits their investments to short-term obligations. On balance, therefore, the Bank may find from corporations a good demand for its obligations of short maturities, but considerably less for its more permanent form of bond offerings.

Investment companies or investment trusts may become interested in holding bonds of the International Bank of long as well as short term. These companies sometimes carry rather substantial sums in cash and government bonds relative to their total assets, these sums varying with the stock market prospects as they appear to the trust managers. Investment trusts generally are insistent upon the liquidity of their holdings, liquidity in this instance meaning primarily ready saleability. As the securities of the International Bank, particularly its direct obligations, should enjoy a stable and liquid market for reasons cited above, they should have considerable appeal for investment companies, assuming that the yield on bonds of the Bank will be somewhat higher than that at which U. S. Government bonds are selling in the open market.

There are, however, two factors which should indicate a cautious view as to the Bank's addressing its offerings to this group to any extent. First, the fact that the total cash and deposits held by the investment trusts is not large measured by the amount of bonds which the Bank will be offering to the market, and, second, that the investment trusts are not dependable holders because of their habits of frequently switching investments according to the trend of the securities markets.

Individual Purchasers

There remains to consider the prospects of the Bank selling its bonds to individuals. How much of these issues might the U. S. public, the individual savers and investors absorb? Although Bretton Woods has been prominent in the press and in public discussions it is hardly likely that sufficient emphasis has yet been given to those aspects which are of primary interest to investors to assure the bonds a ready market among individuals at present. The fact that the bonds will be registered with the Securities and Exchange Commission and that, the selling literature, the prospectus, will be prepared under the watchful and experienced eyes of its staff, should be of real assistance in this direction. But this educative process will inevitably take time. Bank bonds represent an entirely new genus of security and they might be scrutinized with care and some skepticism by many U. S. investors. Furthermore, by some, the Bank's guaranteed bonds and perhaps its direct obligations also, will be classed as foreign securities.

But these prejudices and qualms will be overcome eventually as the U. S. public comes to understand the purpose and nature of the International Bank, as its Board of Directors become known and as it becomes more clearly understood how all powerful is the National Advisory Council on International Monetary and Financial Problems with respect to the Bank's offerings in the U. S. capital markets.

There is no doubt that individual investors in the United States have ample investible funds to absorb all the bonds that the International Bank is empowered to offer and guarantee. The cash and bank deposits held by individuals in this country is estimated at over $100 billion, while the maximum lending power of the Bank if all its authorized capital is actually subscribed is $10 billion. Furthermore, individuals as investors have been constantly losing their holdings of high-grade bonds and preferred stocks through the corporate process of refunding at ever lower coupon and dividend rates and by the direct selling of new issues to institutional investors, including commercial banks. There should, therefore, be a healthy appetite for the new Bank's securities. To predict that this potential demand will be actualized would be to make a judgment in the realm of popular psychology from which this writer will refrain.

Four Wheel Drive Auto Co. Common Stock Sold

Comstock & Co., Chicago, and Irving J. Rice & Co., St. Paul, Minn., on March 12 announced the sale of 2,587 shares of common stock (par $10) of Four Wheel Drive Auto Co. These 2,587 shares represented 1,623 unsubscribed shares out of 13,269 shares offered for subscription to common stockholders and 964 free shares.

The common stockholders of record Feb. 11 of Four Wheel Drive Auto Co. had been given the right to subscribe on or before March 7, 1946 for a total of 13,269 shares of stock at $20 per share on the basis of one new share for each 14 shares owned. With the issuance of the above 14,233 shares (including 964 free shares), the outstanding common stock totaled 200,000 shares.

The common stockholders of record March 19, 1946 are to receive on March 29, 1946 a distribution of one additional share of common stock for each two shares held. This will bring the total outstanding common stock up to 300,000 shares.

Cohu & Torrey to Admit

Cohu & Torrey, 1 Wall Street, New York City, members of the New York Stock Exchange, will admit John Hall Allen to limited partnership in the firm as of April 4.

The Inflation Outlook

(Continued from page 1632)

building at Florida 99 in Buenos Aires is as much at home in the leather and wool producing Argentina as its parent bank here in industrial New England.

The wool crops in many parts of the world are grown with Boston as their market. When cotton textile manufacturing developed in the South, it was New England savings and New England management that developed them. It is largely New England savings that still possess them. The machine tool industry moved West, but much of it is owned in New England. The quantity production of shoes also moved West, but quality and quantity production of shoes still thrives in New England. New England is the financial parent of industries that are nationwide and worldwide.

Always New England has saved its money. Always New England has looked to itself for the support and strength that only you yourselves can supply. Always New England has expressed the conservatism that grows with cash and fades with spending.

In recent years you have watched your savings, built up in three centuries, dissipated in thirteen years of extravagance and waste, in peace and war. You have watched the purchasing power of your money decline even though the principal remained unchanged. You have watched the return in profits and in dividends decline one year below another while your costs of living and of doing business have increased.

Because of New England's higher percentage of savings, the national debt of $279 billion carries greater burdens for you than it does for the less thrifty and provident in other parts of the nation. Because the unit of money is unchanged, people are unaware how much its value has been reduced. While your interest in inflation is vague and limited, its power to destroy your savings increases. Inflation is at hand just as the atomic bomb is here. You may never learn about the atomic bomb as Hiroshima learned it. You can only avoid learning about inflation by reducing debt and increasing production.

Two Stages of Inflation

Roughly and crudely, inflation divides into two stages. One is the expansion of money and credit in the absence of production. That inflation is here now. The other is runaway inflation resulting from fear. Today's discussion is directed against this second and even more destructive stage of inflation that must result from continued spending.

Since 1939, according to the Bureau of Labor Statistics' index of wholesale prices, housefurnishing goods increased 21%, building material 32%, textiles 45%, and food 54%. In the terms of what the people can buy, goods that could be bought for $1.00 in 1939, now cost $1.39. That's inflation!

That figure does not include the rise of prices which has been, and will be, made under the new wage formula—an impractical political attempt to inflate wages and deflate prices. This price increase, Marriner Eccles says, may reach 10%. That's inflation! This inflation does not include the breaking of its own price line by OPA to gain Congressional sanction for extending its controls. Allowed increases in prices of meats, grains, textiles will continue to reduce the purchasing power of the dollar until production of goods at a fair profit is permitted. Goods which cannot be made at a fair profit just don't get made. That is how OPA restricts production. It increases inflation.

This inflation does not include the higher prices the general public is forced to pay by price controls because OPA policies have driven low-priced goods, shirts, shoes, overalls, house dresses, off the market. This inflation does not include the excessive prices for the constantly increasing black-market goods which OPA creates and officially admits it cannot stop. This picture of inflation does not include the inflation at present being hidden by Government subsidies, which OPA says amount to 8% in the cost of food. Subsidies not paid by new taxes are paid by new deficits.

OPA has not stopped inflation. It is only trying to conceal inflation from the people.

OPA is a camouflage operation to hide the true facts of Government weaknesses in its fiscal policy.

Sooner or later, this hidden inflation has to be faced by the American consumer in the prices of the goods he buys. Mr. Bowles admits that whenever price controls are taken off, this hidden inflation will cause prices to rise.

NAM's Position

NAM's position is that the sooner the bad news of inflation is revealed to the people, and the sooner we get back to free and full competitive production and pricing, the sooner the danger of runaway inflation will be removed.

Inflation is not something to talk about in terms of the billions of dollars that the nation owes in debt. It must be talked about in terms of what is owed by the people who pay for government. The people can't pass the debt along. They are the end of the line. Inflation with its blighting, greedy hand, can make the workingman's wages, though they be more and more, actually be worth less and less.

There always is an "inflationary potential" in every highly developed economic system. This "inflationary potential" consists of all the currency, bank deposits Government bonds, savings, corporation bonds, mortgages, stocks —in brief, everything in the form of "liquid savings" that can be converted into cash and used for the purchase of goods—plus the borrowing capacity of all the people and all businesses. This is the "potential" buying power that exists at all times—the real "inflationary potential."

Inflation is caused, not by the mere existence of these "liquid savings." It is caused by people actively using these "liquid savings" to bid up prices. Runaway inflation is caused by people becoming frightened over the future value of their "liquid savings" and rushing to convert them into goods—no matter what price they have to pay for goods.

What can cause people to get frightened over the future value of their money and "liquid savings"?

There are three basic causes:

1. People may get frightened because of Government financial policies. Continued large deficits are likely to have this effect. Continuing the money-printing presses is almost certain to do so.

2. People may get frightened because of continuing and growing shortages of goods. Conversely, unless the Government is running the printing presses, a rising avalanche of goods gives people confidence in the future value of their money.

3. People may get frightened because of scare propaganda—statements that prices are going up—that the nation is on the verge of a disastrous inflation, etc.

Bowles' Position

Mr. Bowles said on Feb. 18: "It would be difficult to exaggerate the gravity of the inflationary crisis we face . . . Everywhere the inflationary pressures have reached explosive proportions."

This statement is not true. We are still in the **first** stage of inflation. We must avoid the **second**, or runaway, stage. In February, the public bought $60 million Government bonds more than it redeemed. This is clear evidence of continuing confidence in the ability of this nation to pay its debt.

Rising prices are not causes of inflation. They are the symptoms of inflation. Subsidies are camouflage that hide inflation. If the people's savings, their war bonds, the money in their pockets, their insurance, their wages, are not to become worth less and less; if the cost of living, goods, clothes, household furnishings, daily expenses, are not to go higher, this inflation must be stopped **now**. Inflation can be stopped whenever the Administration quits spending the nation's money in billions in exchange for votes of pressure groups.

Safeguards Against Runaway Inflation

Runaway inflation **can** be averted by three principal safeguards.

The first inflation safeguard is all-out production of the thousands of things the American public wants and that business wants to produce—washing machines, automobiles, radios, clothes, shoes, food, farm machinery, building materials, furniture, etc. We need to test every Administration policy by the question, Will it help production? Our general attitude must be that if a policy restricts production, the burden of proof has to be on those who advance the policy and the proof must be overwhelming.

The OPA gives lip service to the thesis that it wants to remove controls; but its operation hinders production. With 3,000,000 businesses to regulate and 8,000,000 prices to set and police, it is not possible to prevent delays and confusion—with some prices too high, others too low.

With some prices too high, others too low, production will remain out of balance because producers will naturally concentrate on turning out those goods which are most profitable. Attempts to correct this unbalance by price adjustments will always create still more points of unbalance. Fixing prices on the basis of OPA's theoretical estimates of future production and costs, rather than on established facts, will make production dependent upon the accuracy of OPA guesses, instead of upon the realities of the marketplace. And holding profits 25% below the 1936-39 level and figuring profits upon net worth instead of upon the volume of sales destroys the incentive to try to get all-out production.

Effects of OPA Policy

Continuation of OPA means limited production, continued shortages, and an even greater danger of inflation.

What can we look forward to if price controls on manufactured goods are removed before supply catches up with demand on an item-by-item basis—before there are enough automobiles to meet pent-up demand?

Would prices skyrocket? Many people think so.

But do you think women would stand in line to buy nylons at $6 or $8 a pair if they knew that next month they would be $2? Do you think people would pay $10,000 for an automobile if they are convinced that in three or six months they can buy the same car for $1,000? Do you think a store could sell a simple white shirt for $10 if people knew that in a matter of weeks they could buy all the shirts they want at $1.95? People do not bid up prices when an avalanche of goods is coming onto the market. People bid up prices only when they fear continuous and increasing shortages.

So far, the people as a whole have shown no inclination to squander their wartime savings. There has been no significant increase in war bond redemptions, no drawing down of savings accounts, no wild rush to convert money into goods. If we have full production and full employment at good wages there is no reason why savings should be spent for current purchases. With full employment at good wages, people can buy automobiles, radios, washing machines, etc., out of current earnings, as they always have in the past. Every dollar of goods produced simultaneously creates a dollar of buying power—in wages, interest or profits. If we produce $150 billion of goods and services, we thereby automatically create $150 billion of buying power.

Prices are fixed by competition in free markets, not by the money supply.

The free market is the effort of every manufacturer to meet the wishes of the American housewife, to give her what she wants at a price she thinks is fair. That is **real** price control. Price control by the American housewife is the kind of price control that assures that the right things get made in the right quantities. Price control by the American housewife is the kind of price control that assures maximum production—jobs and prosperity for all.

Labor Policy

The second needed inflation safeguard is a labor policy that is non-inflationary. Wage increases without equivalent increases in production are inflation. At the war's end, the Administration predicted eight million unemployed. It prepared for deflation. It sponsored wage increases. To the Administration's surprise, reconversion by industry was promptly completed. The public held their savings waiting for production of goods. Therefore, wage increases, intended to prevent deflation, actually increased inflation. Secretary Wallace's formula, used to obtain wage increases, was disavowed by him as being worthless two days after the General Motors strike was settled. The Administration's contribution to inflation, therefore, is not confined to its prevention of production and its increase of debt.

The Administration has no labor policy as such. It is a jerry-built patchwork of expediencies. It is based on subservience of the Administration to CIO.

Labor disputes can be settled peacefully with justice to labor, industry, the public and investors, when the Administration quits bailing labor out.

NAM Labor Program

American business management believes that it has a constructive program for bringing about industrial peace. The program is briefly this:

1. There should be equality before the law, and equality of responsibility, between labor and management.

2. Government should serve solely as an umpire; and for the people as a whole, not as a partisan suporting either management or labor.

3. Collective bargaining should be conducted just as close as possible to the plant level where disputes arise.

Such a program for industrial peace would in no sense curtail the basic rise of labor.

It would make possible the protection of the public interest through assuring a continuous flow of goods on the market at prices which would be fair to the public. At the same time it would enable management to pay good wages to its workers and earn a fair profit for those who risk their money in American industry.

End Deficit Financing

The third safeguard is to end deficit financing. Deficit financing creates money, credit and purchasing power without producing the goods and services which alone can validate the money issued by the Administration.

The budget should be balanced. Before the war, $40 billion was spent to create employment, but in January, 1940, 10 million were unemployed.

The war had to be won. Money had to be spent. No one regrets the money losses incurred. The goods produced rust and rot on battlefields all over the world. The money printed is not offset by goods now in existence. The war has ended everywhere in the world except in Washington.

The need for economy is greater than ever. The Tax Foundation has demonstrated that the budget can be balanced at $20 billion or less. This would permit reduction of taxes. It would create incentives to investment. Investment would buy tools. Tools would create jobs. Prosperity could be put on a permanent basis by correct fiscal policy.

Correct fiscal policy is well known in New England. It is well known in Tokyo. In January, MacArthur required the Japanese Government to follow a correct fiscal policy. He required the Japanese Government to do in Japan what our own Administration must do in America if runaway inflation is to be prevented. The Allied command demanded that deficit financing cease, and added this order:

1. The Japanese Government must cut expenses to the minimum;

2. Deficits must be financed from the saving of the Japanese people—or from actual bank deposits rather than from newly printed currency;

3. The Japanese Government must refrain from selling to the Bank of Japan or other banks hypothetical obligations demanding in exchange actual circulating currency.

MacArthur's fiscal policy for Japan is a plan for solvency. It should be New England's plan for America. Federal spending must be reduced if we are to amortize the debt of over $279 billion with which this nation is burdened. We must stop adding to the debt now; not five years hence. Nations, like individuals, pay their debts only when they plan to do so. Debt retirement at the rate of $1 billion, $2 billion or even $3 billion a year would be regarded as only token payment in view of the size of the debt. Debt reduction would be a lasting benefit. Any advantage from liberal spending on current services would be temporary.

The National Association of Manufacturers believes that a $20 billion budget, including debt reduction, will be adequate to serve this nation. The revenue of the current fiscal year is figured by the Government at $31.5 billion. Expenditures of $35.8 billion are planned. This is $4.3 billion more than the revenue. If the deficit is $4 billion, the supply of money actively seeking goods is immediately increased by that amount. The supply of goods in the market remains the same. Prices go up. That is inflation. To the Government, any proposal to cut expenditures is politically unwelcome. Always a heavy tax load to support Government expenditures, suppresses production.

The explosive nature of deficit spending arises from the fact that it is borrowed money—money which someone did not want to use for consumption. It is paid out by the Government, however, largely to public servants who will use most of it immediately on consumption. The failure of the Government to collect sufficient taxes to avoid a deficit, leaves the uncollected taxes in the pockets of the public. Shortly the uncollected tax money will enter the market in search of goods.

Limits on the production of money and the creation of debt must be established if further inflation is to be prevented.

The dollar taken in by businessmen during a runaway inflation would shrink as fast as any others. In disposing of goods, the businessman would have little chance to replace them. No one would want his money. The inflation history of Europe after World War I shows that it is a gamble where you can't win. You sell yourself out of business.

Expand the Economy to Meet Expanded Debt

The only way to handle the Government debt is to expand the economy to fit the debt. The debt can be destroyed by deliberate repudiation. It can also be destroyed by runaway inflation. The necessity of expanding the economy to the scale of the debt makes labor peace vitally important. We cannot have production stoppages. Labor troubles are directly tied to OPA in the new wage-price policy of the Administration. The Administration says it fears inflation, but it inflates wages and restricts production. If the Administration wanted inflation, its present policy would assure it.

Recognition is given to the inflationary pressure of the monies proposed for loans to foreign governments, so far as the monies have call on American goods. Yet there is no indication of the slightest consideration by the Administration of the inflationary pressure of a deficit equal to the proposed British loan, when that deficit comes onto the market in the hands of American public servants, seeking goods.

The Administration improvises one unfortunate policy to correct another unfortunate policy. The attempt is being made through the OPA to correct the inflationary method of financing the war, which piled up such huge liquid debt. The Administration is using OPA to cover up a basically unsound position, instead of correcting it.

The adoption of a three-fold program — sound fiscal policy, elimination of price controls to permit production, sound wage policy—would not prevent all price increases from here on.

Present Ceilings Will Not Hold

Nothing can prevent price increases above the present ceilings. That is true because of the vast accumulation of purchasing power in the hands of the public as a result of the war financing, and because of the Government's drive to increase the overall level of wages by 15% to 20%. Those factors assure that we will have to pay a price for what has already been done. Our problem is to keep this price as low as possible. If we fail to take constructive action; if we continue to pile up purchasing power, continue to curtail production, continue to force increases in the cost of production, the price is almost certain to become unbearable.

The Government debt overhangs your job, your chattels and whatever savings that you have. Your policy of deficit financing levies its costs against your living and your future just as surely as it pays interest on Government bonds. Deficit financing reduces the value of every insurance policy on every life in this hall, on every relative and friend you have, by reducing the purchasing power of the money. Deficit financing reduces the value of every security that you hold, of every Government bond you have bought; of every mortgage, if any, that you own. Deficit financing goes through your safe deposit box and reduces the values in it without opening the box. Deficit financing reduces the value of every savings bank deposit without changing the credits in your bank book. Deficit financing reduces the value of the money in your pocket while you hold it, without changing the numerals on the folding money or the figures on your coins.

Deficit financing robs all the elderly who on the sunset side of life depend on fixed incomes or annuities, and who lack the strength to re-enter the ranks of workers. Deficit financing reduces the values of trusts for old and young, for retirement or for education. Deficit financing, in peacetime, is a device to give gifts to pressure groups at the expense of all the people. It is a selfish plan to enjoy privileges and immunities in the present at the expense of our children and grandchildren in the future. Deficit financing is a war on all American savings from Plymouth Rock and Jamestown until now, without a declaration of war. Deficit financing is an invasion of the purchasing power of the poor. It reduces the amount of groceries the housewife can purchase by increasing their prices. It increases the rent of the poor by adding the increased tax bill of the landlord. Deficit financing raises the costs of shoes and clothing by increasing the costs of the farmer who supplies cotton, wool and leather. Deficit financing invalidates the wage increases of labor by reducing the purchasing power of the money with which the increases are paid. Deficit financing menaces the security of all Civil Service employees, of all white-collar workers who function as servants in all parts of the economy but not as pressure groups.

No Realistic Budget Plan

The Administration has no realistic plan to balance the budget. Until it is balanced, we cannot sweep back the rising tide of inflation. There are plans to keep the budget unbalanced. Administration representatives travel America and abroad to invent and create new causes that pressure groups will support. These are being offered as concessions in anticipation of votes. This Administration policy, if pursued, must gradually reduce a rich people to poverty.

The sound fiscal policies that made New England great are needed in the Administration to keep America solvent. The Administration must quit searching for causes behind which pressure groups can be organized to press for expenditures of billions of dollars in exchange for votes. The budget must be balanced at tax levels that will assist production. The tax funds should fix the needed peacetime Administration expenditures at less than $20 billion.

The Administration must quit bailing out labor with inflation each time it gets into difficulty. The present policy of inflation by wage injections in billions of dollars is at the cost of every citizen of Boston and at the cost of the total economy.

The Administration must take restrictions off production. Production of goods cannot entirely validate the nation's outstanding debt. It can assist its solvency.

Production, if unfettered by the Administration, will increase the making of much needed goods as a partial offset to the national debt. If it is not unfettered, the debt will increase as the nation moves toward insolvency.

The Administration should quit pushing its debt into banks by coercive methods. It should transfer more of the bonds now in banks into the hands of the people, where the debt belongs. This transfer will enable banks to assist production by increasing available funds. The Administration's policy should be determined by what assists production. It should be determined by what reduces debt. On this sound fiscal program, national solvency can increase; tools can increase; venture capital would return to the market. Jobs can be provided, wages can be raised, and prosperity can be made available for all of the people.

On this sound program, New England grew to greatness. Our nation became great.

It can again be great when we live within our income and liberty is restored to all the people.

Schram Scores Curbs on Free Markets

(Continued from page 1637)

ings banks. In this period of vast inflationary potentials and when concern as to the future purchasing power of the dollar is in the minds of so many people, it is particularly important that our national debt policy be directed (1) to maintaining the attractiveness of government securities to non-bank holders who might otherwise convert them, (2) to intercepting the flow of current income which would otherwise add to the demand for goods and services, and (3) to avoiding further increases in bank holdings.

"The following tabulation shows the distribution of government interest-bearing obligations at the end of November, 1945 (in millions of dollars):

	Millions	Percentage of Total
U. S. Govt. Agencies and Trust Funds	$26,844	10.2%
Federal Reserve Banks	23,472	8.9
Commercial Banks	85,600	32.5
Mutual Savings Banks	9,800	3.7
Insurance Companies	22,500	8.5
Other Investors' holdings:		
Marketable Securities	40,200	15.3
Non-Marketable Securities	55,000	20.9
Total	$263,416	100.0%

"Almost one-third of the total debt today is held by commercial banks which also, during the next several years, may have to assume a substantial part of any securities issued to replace non-marketable securities held by private investors when they are turned in for redemption.

"Treasury policy of recent years has been dominated, insofar as the entire structure of interest rates is concerned, by the desire to keep down the cost of borrowing. But the question now arises whether the saving in interest will not have consequences more costly in the end than rates of interest sufficient to provide a sounder money market. Higher interest rates would make it possible for banks to sell some of their government bond holdings to non-inflationary buyers of the types above mentioned. Idle bank deposits would be attracted, reducing inflationary tendencies; and currency in circulation might be reduced, adding to bank reserves.

"The whittling away of interest rates has resulted in real hardship to institutions and individuals unable to shift their funds or assume the risks of equity investments, and has made a major problem for life insurance companies.

"The establishment of the wisest conceivable policy for the management of our national debt is a task for the best intelligence and statesmanship in this country. It is no exaggeration to say that the welfare of every man, woman and child is involved. Debt policy cannot be divorced from tax policy and other fiscal policies. Their inter-relationship is such as to require a coordinated program. The problem is a grave one and should be faced courageously without permitting any single group, whether government or private, to impose its views or wishes regardless of the implications and consequences to the economy as a whole. I strongly urge that an able commission be set up representing Congress, the Treasury, the Federal Reserve Board, the commercial banks, the large non-banking institutions and other groups to study this whole question and submit recommendations looking to the establishment of the broad national policy which is so urgently needed."

Volume of Exchange Transactions

Mr. Schram reported that "there was a further increase last year in the volume of share transactions. A comparison with recent years is particularly interesting in that it shows to what extent the securities business has recovered from its extremely low point of 1942 when the volume of transactions on the Exchange was the smallest for any year since 1913 (not counting 1914 during which the Exchange was closed for several months).

Year—	Total Reported Share Volume	Total Shares Outstanding (Year-end)
1942	125,685,298	1,470,502,630
1943	278,741,765	1,489,367,030
1944	263,074,018	1,492,277,716
1945	377,563,575	1,592,111,825

Continuing, Mr. Schram noted: "The volume of share trading in 1945, as a matter of fact, was smaller than the average annual volume over the past 25 years and about equal to the 1920-1944 average with the abnormal years of 1928 and 1929 left out of the calculation.

"It is important that these and other facts relating to our capital markets be clearly understood. Any misinterpretation of the facts could operate to the detriment of our markets at a time when their smooth functioning without unnecessary restraint is essential if we are to have a free flow of capital into productive enterprise. The financing of the reconversion of our war-expanded industries to a peacetime basis and the rehabilitation of large portions of the world, devastated and industrially impoverished by years of total war, will require healthy and efficient capital markets.

Net Income for 1945

"The consolidated net income of the Exchange and its affiliated companies for 1945 was $856,026, compared with $673,758 for 1944, an increase of approximately $182,000. In addition, the Exchange received as contributions to the capital investment of the Exchange from initiation fees $248,000 in 1945, compared with similar fees of $160,000 during 1944.

"The expanding volume of trading on the Exchange resulted in substantial increases both in the income and expenses of the Exchange. Total income for 1945 was $7,509,850, an increase of $2,044,778 over income for 1944. A large portion of the increase was accounted for in listing fees received during the year, which totaled $1,718,000 for 1945 compared with $741,000 for 1944. Other items of income directly related to the volume of trading on the Exchange also increased during the year. The one item of income which showed a substantial reduction during the year was that of rents which decreased by approximately $57,000, this being due to the loss during the early part of the year of the principal tenant in the 20 Broad Street Building.

Expenses for 1945

"Expenses for 1945 exceeded 1944 expenses by approximately $1,834,000. The advertising program mentioned earlier accounted for $464,000 of this increase; salaries and wages, including bonuses paid to employees during the year, increased by $671,000, and Federal income taxes were up by $528,000. The large increase in the item of Federal taxes is due to the fact that in 1944 the Exchange received the benefit of the carry-over provisions of the tax law with respect to previous years' losses.

"During the year the Exchange adopted an 'Incentive Compensation Bonus Plan' whereby amounts of regular additional compensation to employees are related to the volume of trading on the Exchange and the number of employees on our active payroll for the period. In addition, the Exchange paid to employees a year-end bonus for 1945 of 10%.

"The item of 'professional services research' represents the cost of the special studies prepared for the Board of Governors during the year with reference to floor trading and the operation of the specialist system.

"With the end of the war the Exchange was fortunate in re-obtaining the services of a substantial number of the more than 300 employees who had been on leave of absence while with the armed services. As of the date this report was prepared, there were approximately 125 employees still on leave of absence; their return will permit us to return completely to a peacetime basis of operation. As of Dec. 31, 1945, the Exchange and its affiliated companies had on their active payrolls a total of 1,160 employees, compared with 975 as of the beginning of the year."

Burr & Co. Offers L. E. Carpenter Stock

An underwriting syndicate headed by Burr & Co., Inc., made a public offering March 27 of 129,242 shares of L. E. Carpenter & Co. ($1 par) common stock at $10.75 per share.

Proceeds from the sale of 50,000 of the shares, which are being sold for the account of the company, will be used for construction of a permanent addition to the Wharton, N. J., plant and for the acquisition and installation of additional productive facilities, as well as the moving of certain equipment from the Newark plant to the new Wharton addition. The other 79,242 shares are being offered for the account of stockholders.

Company was organized on July 2, 1925, under New Jersey laws, for the purpose of taking over that part of the business of the Zapon Company which was represented by the manufacture and sale of lightweight coated fabrics commonly known as imitation or artificial leather or leather cloth.

For the year 1945 the company has reported total sales of $9,316,528, and net income of $205,401.

Russell Rowles Opens Own Investment Firm

HOUSTON, TEXAS—Russell R. Rowles has formed Rowles & Co. with offices in the Bankers Mortgage Building to act as dealers in investment securities. Mr. Rowles was formerly an officer of Dittmar & Co. and Mahan, Dittmar & Co., in charge of the Houston office.

Rude Awakening!

(Continued from page 1630)
cuddling and courting the Russians as a "peace-loving nation," as an integral part of a naively conceived One World, as a kind of "democracy" that cannot do wrong. As a matter of fact, the fundamental axioms of the Churchill-Roosevelt foreign policy were two: (1) to sacrifice the Atlantic Charter and other principles, if necessary, for securing Russian cooperation in "permanent" peace; (2) that Stalin is a perfect gentleman with whom one can divide up the world and rely on his word that all he wants is to eliminate the danger of a *cordon sanitaire* around Russia and to guarantee thereby his country's "security."

Central Europe was handed out openly (Northern China and Korea in a more camouflaged fashion) to Russian control with the expectation that Stalin will respect the vested interests of the West. It was a rude awakening in September, at the foreign ministers' meeting, when Molotov just would not remember the unwritten deal. Coming on top of all other violations of the letter and spirit of agreements, and of blocking all reorganization or reconstruction in the occupied territories and beyond, it meant the complete fiasco of the Allied policy of appeasement.

What brought about a far-reaching revision of American foreign policy is, of course, not a return to the ideals of the Atlantic Charter. The Four Freedoms of Iran and Turkey are of no more ethical value to the State Department (and, for that matter, to the Foreign Office) than the inalienable rights of Poland and Yugoslavia, which had been sold down the Volga. It was British, and to lesser extent, Chinese pressure. Chiang Kai-shek is either so subdued by our double-dealings with his Communists or by the Russian show of force that he seemed to submit to a foul compromise. But Chinese public opinion is not likely to submit. Its old nationalistic enthusiasm, greatly enhanced through seven years of war and immense sufferings, is inflamed by the looting of Manchuria and the obvious attempt to apply sovietization on the Outer Mongolian pattern to northeastern China as well. China is being carried by a nationalistic wave against Russia as it was carried against Japan in 1937. Washington is faced with the explosive prospect of a Sino-Russian conflict unless it is stopped at the outset.

Far more urgent and effective is London's pressure. In despair over the future of the Empire, British officials make no bones about their resolution, implied in Churchill's speech, to fight if the Russians penetrate forcefully into Turkey and Iraq, or to the Persian Gulf and the Mediterranean. They cannot permit a Russian foothold in Italy (via Trieste), nor the cutting "across the Empire's throat" by way of Salonika, Tripolitania and Eritrea. They also are aware of the fact that Russian sabotaging of every reorgnization in Europe (as in Korea) blocks the conclusion of peace treaties, and that the Soviet policy of an "iron curtain" around the occupied lands, which are being systematically bolshevized, disrupts Europe's economic system, reducing to nil the chances of its recovery, and therefore those of Britain as well.

The New Diplomacy

Something had to be done. So far, what is done in the first place is to follow Vandenberg's profound advice, and talk "bluntly" to the Russians, hoping to frighten them. It was a shrewd move to send Churchill to the front—and no one familiar with such operations doubts that he was being sent—to bring home to Moscow the threat of an Anglo-American alliance in a fashion that might be denied without losing face—to bluff without running the risk that the bluff might be called. That we mean "business" was brought home to the Russians in many more ways. The official and semi-official propaganda machine of this country has been geared suddenly against the Soviets, obviously to convey the impression that the nation stands for the Administration's "toughened-up" line. Since late February, American occupation authorities in Berlin have changed their tenor, too: instead of courting the Russians, they have turned pro-British on every question. The announcement that American-equipped and trained Chinese divisions are to be shipped from Burma to Manchuria is an even more impressive "diplomatic" gesture. Public utterances of high military authorities in discussing the modalities of a new American mobilization, and the Administration's emphasis on renewing the draft, belong in the same chapter. So does its decided attitude of bringing the Iranian question before UNO. The evident support to bolster Persian and Turkish resistance completes the picture.

On the other hand, strenuous efforts are underway to get over the crisis and save the UNO, not so much out of fear of a war with Russia, which the UNO could not stop, and which the Russians are not likely to want, but rather to maintain the international organization itself. It has to be kept going as a cornersone of the Administration's policy to win coming elections at home. They cannot let it go on the rocks without losing a most important pillar on which the prospects of reelection rest. Accordingly, all attempts will be made to pacify the Soviets. The British are dissolving the Polish army of General Anders, once the "gallant Allies," to be thrown on the street. Oil concessions in Iran may be offered on a "fraternal" basis, as the neutralization of the Dardanelles had been offered before. London may accede to a Russian free port on the Persian Gulf, and to joint trusteeships over former Italian colonies; in short, to any reasonable claim that does not involve new Soviet military footholds.

What Is Russia Up To?

But will that satisfy the Russians? To the Anglo-Saxon mind, their behavior is inexplicable. It is not consistent with the high ideals for which they are supposed to stand, nor with the alleged cleavage between their objectives and those of the Fascists. It seems nonsensical for Russia to forego all political and financial advantages of the phenomenal Anglo-American good will, and to face the doubtful potentialities of another devastating war for the sheer benefit of some land-grabbing. It's all so puzzling, due to the complete misinformation which was fed for years to the Western public. During the war, it was fed on the uptopian idea that the Bolsheviks ceased to be utopians—that they have become just another crowd of hard-headed businessmen and democratic patriots. After victory, this myth had to be abandoned because the Soviets made it perfectly plain, by words and deeds, that they are as totalitarian and collectivist as they have ever been. Promptly, a new myth was formed. The new fairy tale ran in terms of Russia being fully occupied with building up her collectivist system; therefore, and since she has an excess of raw materials and manpower, she will have no desire to interfere with the peaceful development of other countries. At worst, she will be self-contained and isolationist. The postwar world was pictured accordingly as a sort of beauty contest between economic systems, a new form of international competition: who can make the world happiest and do so fastest?

The awakening from this naive dreaming was a rude one, too, but it did not end the mythology. In the face of obvious Russian aggression and expansion, of the ruthless exploitation and enslavement of some 150 million non-Russians, the trustful had to fall back on a last line of fabrication: that the Soviets merely want to insure the "security" of their frontiers, meaning no harm otherwise. This was the original Churchill-Roosevelt justification for the parceling out of Central Europe; it is the official Soviet line to which the Davies, Peppers, and Wallaces cling. Incidentally, Ludendorff and Hitler never asked for more than the "security" of their frontiers. (Plus a few little colonies—the same as Stalin requests now.) The need for security is to subterfuge for every kind of imperialism. If the New York "Times" editorialized lately that we must not assume any other but security motives on Russia's part, especially no intent for world conquest or world revolution, then all it overlooked was that the sky is the only limit of the security claim, once it is conceived irrespective of the self-determination of other nations.

But assuming that the peace-loving Soviets (armed to the teeth, with those over 42 to demobilize by September and fresh classes called in) indulge only in security maneuvers, against whom are they directed? And why? After the elimination of the aggressors, should not the obvious generosity of the Western powers—at the expense of small nations—the expansion of Russia's frontiers and economic potentials, the guarantee by the UNO and all the international force behind it, in addition to her own immense power, offer sufficient security? The answer is no, and it is puzzling only to those who did not bother to study the deeper trends of Soviet foreign policy.

Russia's International Outlook

The mystery of Russia's alleged zigzag diplomacy can be solved with the aid of a few clues. It is devious only in appearance; in reality, it is as logical as circumstances permit. It began with Lenin's call for world revolution, which would have meant his own domination over the world. Since the failure of Leninism at the gates of Warsaw, in 1920, bolshevik ambitions have been curtailed, and at times, when they were on the defensive, seemingly reversed. But whenever the opportunity arises for expansion, be it by direct military action of the Prussian type, by economic penetration on the old British pattern, or along the Marxian lines of revolutionary boring from the inside, the Soviets almost never miss the chance.

While their basic attitude has not varied an iota (their Middle Eastern ambitions, e.g., take at present exactly the shape of the 1941 Molotov proposals to Ribbentrop), the emphasis shifted under Stalin from the general and long-run ideology toward specific and immediate goals. The underlying thought does not change, for reasons anchored not only in the present system of Russia and in her past history, but also in an ineradicable mentality typical of Eastern Europe—that reaches today as far west as Paris, and beyond. It is the naked Machiavellianism of power-politics, the ideology of the international jungle, the cynicism of *Real-Politik* carried over by the Bismarck-Ludendorff school into the twentieth century, that has corrupted thoroughly the Continental, especially also the Russian mind.

The Russian "Mind"

To bolsheviks (as to fascists), it is axiomatic that every powerful nation is on a ruthless hunt for treasure and might. They have nothing but contempt for the suggestion that our ideas of democracy and human rights are anything else than verbal "superstructures", to camouflage the underlying economic interests and political ambitions. Marxian education—is there someone left in Russia who had any other education?—is centered on the destruction of every belief, religious or profane, in any ideals inherent in capitalistic society. (Social-democrats, New Dealers and Labor parties are of course mere tools of the capitalists.) If the West makes concessions and courts the Soviets, it does so only because it is too weak to oppose them. If it does put up opposition, then the wickedness is evident. If we advocate the cause of small nations or the Open Door, we do so because that serves our purpose; to open up resources or markets for exploitation and to gain allies for wars of expansion. Therefore, Russia must use all means at her disposal to get the same results for herself. If we protect Iran, it is to grab its oil; the more reason for Moscow to do the grabbing first. Every businessman who tries to sell sewing machines or underwear is a glowing example of an exploitative capitalism; every weapon we do not give them, a proof of our warmongering imperialism. Small wonder that they have to defend themselves against such inhuman forces and all tricks are permissible.

De Gaulle is quoted as having said that a showdown between the U. S. A. and the U. S. S. R. is unavoidable; the only two world powers left, they are "naturally" antagonistic to one another. That's the way the continental mind of this generation works, raised in two world wars, endless balance-of-power intrigues, bloody revolutions, in *coup d'etats*, foreign occupations, and all kinds of lawlessness, to say nothing of bureaucratic dictatorships. Russian cynicism is fed in addition on the Marxian doctrine that pretends to debunk all ideologies (except its own).

In view of this mentality, the programmatic speeches of Stalin, Kalinin, Molotov and Kaganovich, delivered in the so-called election campaign of early February, should offer no surprise. Stalin solemnly announced that no peace is possible under capitalism. The Soviet leaders made no secret of their suspicions, nay convictions, about the fundamental hostility of the West against their paradise. They emphasized the absolute necessity of military preparedness and strong-arm policies to survive and to carry on their great experiment in economic and political dictatorship. Their actions tally with their words, with no riddle left in understanding why they push forward at the most propitious moment: when Britain is at her weakest, and the U. S. at its war-weariest state.

Through Soviet spectacles, enemies lurk behind every bush. Of course, most of it is their own doing, but that makes their position the more precarious. Property-minded middle classes and peasantries, the majorities everywhere, are natural enemies. So are the churches, especially the Vatican, with its immense spiritual influence. Wherever the Red Army goes, people turn anti-bolshevik, shown by overwhelming votes in Austria and Hungary. Their inability to grasp the Western point of view, the grudges of the past, the mutual suspicions of the present, the impasse in trying to get along on any important peacetime question, the bitter nationalism of the Russians aroused by Hitler's invasion, all contribute to the bolshevik conviction of a fundamental gap that no institutionalized formula can bridge.

Nor can it be overcome by a balance-of-power diplomacy, in which the Soviets have proven themselves past masters. They played one side or the other of the game, as it suited them, culminating in the alliance with Hitler. But no such game is possible any more. (Present-day France and Italy are poor substitutes.) The perpetual fear of being encircled by an overwhelming Anglo-American bloc has become a distinct possibility, with no Axis left to forge a counter plot. That drives the Kremlin in a near-hysterical fashion to arm; to force minor nations out of that potential ring and into Soviet domination; to acquire military bases wherever possible, and to break up the encirclement from the inside, as in France and China, with the aid of Communist parties.

The Peril to Peace

What makes the situation most perilous is the vested interest of Russia's rulers in this anti-occidental philosophy. It is intimately tied up with their own power-position which rests on State ownership and a ruthless autocracy; seclusion from abroad is the logical sequel to both. Democracy and capitalism thrive on the freedom of trade; it is poison to collectivism and dictatorship. The same holds, and more so, for other freedoms, except the freedom to bolshevise. The West longs for international cooperation from which it derives strength; Russia, being a lone wanderer, must break down or immunize all cooperation, unless put under her own thumb. Intervention in other people's affairs is taboo to the one side, as it is a prime requisite for the benefit of the other.

Moreover, Russia's internal stresses foster the trend toward both: expansion and isolation. One indication is the apparent rivalry between Molotov and Zdanov. Since 1943, five "independent" Soviet republics have been abolished; they were even more infested by fifth columns than the rest. The absorption of large territories with reluctant, if not hostile, populations means new strains as well as added strength. A colossal, multilingual army of crypto-literates, ebullient with hatred of foreigners, its appetite whetted by victory and looting, righteously convinced of the whole world's obligations to itself, has to be used abroad or else faced as a menace at home. The devastations of the war are not repaired by the plunder of the peace. The war has revealed deadly weaknesses of an industrial setup which is carried by untrained, overly-exploited and idolent masses. To bring it up to the dazzling pace of American progress, and to do so under mismanagement by bureaucrats and ideologists, will take some time, to put it mildly.

Enlarging the radius of action—that is what the sum total of underlying conditions dictate to the Soviets. Paradoxical as it may sound, their economy needs manpower and resources: to cure waste by volume, as their security demands to substitute territorial conquest for international good-will. Constantly worried about the obvious industrial and military superiority of the Allies, they cannot forego expansion more than temporarily without risking disintegration. Unable and unwilling to visualize a world without basic conflicts (short of One World—theirs), they try to protect themselves against war by forcing guarantees which in turn create the vicious conflicts they dread.

That does not mean the necessity of war, certainly not in the near future. The Soviets are not ready for a real showdown (unless actually attacked), and are astute enough to avoid a losing battle. But it does mean unending tensions and crises, turning the peace into an armed truce, postponing reconstruction indefinitely, and formenting general uncertainties of the type that causes wild market gyrations.

The Outlook for Mortgage Lending

(Continued from page 1634)

creation of reserves against the losses which are certain to develop out of the present abnormal and artificial situation in housing. These lower rates, which allow very little margin of safety for losses, call for the most cautious and conservative operations in the history of mortgage lending. Yet, paradoxically, we see both private and institutional lenders in this field making many loans on the basis of valuations which cannot be justified, even at the moment, to say nothing of the "long run" justification. The greatest shortcoming, in fact the curse, of low interest rates is that they frequently force lenders, in the unceasing search for satisfactory return, into marginal loans, excess valuations, and other unwise practices.

Today, I want to say a few words about the outlook for interest rates and a great many words about the economics of real estate valuation.

The Outlook for Interest Rates

Firstly, there are many reasons, in addition to the increase in bank deposits caused by Government bond purchases, for the prevailing "low" interest rates. Many economists seeking an explanation of the decline in rates look at the vast monetization of the public debt and cry, "Eureka!"; but they should look further—there are other important economic and nati, Cincinnati, O., March 22, 1946. financial pressures involved.

Historically, the basic trend of interest rates has long been downward throughout the world. Without in any way implying that the United States has a mature economy (which is another way of saying that we have reached the end of our "economic rope"), it is incontrovertible that as an economy gets older the supply of capital increases, under conditions of security, and the demand for capital does not show a proportionate increase. That is, while demand increases absolutely, it does not increase *relatively*. This development has been intensified in the United States by our great natural resources and our enormous productivity. These, coupled with our economic and financial policies of the last 20 years, would have given us lower interest rates even if we had not had World War II and its sales of bonds to the banks.

Also, the exemption by Providence of our country from the heavy physical destruction suffered by most of the other countries of the world further increases the supply of capital and credit relative to the demand. I might add, too, that the unparalleled safety which our country has enjoyed since Civil War days has caused a great deal of the liquid capital of the world to seek sanctuary on our shores.

Still another important factor in lowering interest rates is the modern banking system which we have today. As we economize in the use of gold and erect more and more of a credit structure on a given quantity of gold, the supply of credit so created presses on demand. That is, as our confidence in our banking system increases, as we refine our credit granting methods, and as we learn to safely have additional dollars of credit outstanding against a dollar of gold, we increase the supply of purchasing power without, necessarily, increasing the demand. This, of course, forces interest rates down.

Increasing Investment Capital

In the capital market the rate and volume of private accumulation have increased. The shift of population from the country to the cities has forced more and more people to seek economic security through institutional savings. The great increase in the volume of life insurance, annuities and pension plans, and the great growth of thrift institutions, such as the Federal Savings and Loan Associations, graphically indicate the tremendous increase in the supply of capital seeking investment.

To come even closer home, the widespread inclusion of amortization provisions in real estate mortgages in recent years furnishes a *new* and continuing supply of funds to the capital market which must not be underestimated, particularly in its effects on interest rates.

Now let us look at the influence of public debt monetization upon interest rates. At the beginning of January, 1946, the commercial banks and the Federal Reserve banks held $114,000,000,000, or 41.3%, of the $276,000,000,000, public debt outstanding. The savings banks held an additional $11,000,000,000 which gives a total holding by all banks of $125,000,000,000, or 45.3% of the total debt. The purchase of these securities has caused an equivalent increase in deposits and money in circulation. Thus, corporations and individuals have an additional $125,000,000,000 to spend *over and over again*, which they would not have had otherwise.

Parenthetically, may I point out that only $64,000,000,000 of the $276,000,000,000 public debt is directly held in the hands of individuals and, of course, a sizable proportion of that $64,000,000,000 's financed with bank credit.

Forces Increasing Bank Deposits

To return to the swollen total of $150,000,000,000 of bank deposits, I know of at least six powerful forces which will increase deposits still further; and I do not know of a single economic factor of any consequence which will decrease deposits in the next year or so.

So, even if the Treasury did not want low interest rates, the natural economic equilibrium would be in the direction of stability at present levels, or even lower levels. But, the Treasury *does* want low interest rates! And there is no question whatsoever in my mind as to the ability of the Government to keep interest rates low. I will even go a step further and say that interest rates may go lower than at present, if the Treasury does not take definite steps to support the present pattern and level of rates.

In this connection, I must point out that there are many economists who maintain that the Government will be forced to put up interest rates to prevent wild inflation. I do not agree with their contention. I analyzed this contingency at length in a talk which appears in full in the January 10 issue of the "Commercial and Financial Chronicle." May I refer you to it for an exposition of the relation of interest rates and inflation.

So much for the supply side.

As for the demand side, I do not have enough time this afternoon to make a complete analysis for you. Sufficient to say that other than credit for consumers, and mortgage money for home building, which will be in strong demand, I do not foresee any great demand for credit or capital in the next year or so.

The present supply of both long and short-term capital appears to be more than equal to any demands which are likely to be experienced—and the supply is increasing! On the basis of the pertinent facts, then, it seems indisputable to me that the era of low interest rates, which we have entered, will be with us for a long time.

Low Interest and Real Estate Mortgages

Now let us see how this lower interest level affects mortgages and real estate. As might be expected, mortgage rates have held their relative position in the pattern of interest rates and have declined in line with them. Mortgage rates now vary from 3½% to 4½%, with most large, good urban mortgages being made at 4%. Small mortgages on private homes are, of course, somewhat higher, with some lenders in the traditional pattern of rugged individualism getting as much as 6% here and there. But, in general, competition, among the various lenders, for mortgages is very keen and not only have rates declined, but what is far more important, the appraised values of properties have been materially increased. And, please note, these *increases in valuation have been made by the lenders!*

On Jan. 3, I reassured the Association of Commerce of the City of New Orleans in the following words:

"I do not fear inflation as the term is understood in Europe—a wild, unreasoning increase in prices. The United States is in the best position of any nation in the world because we have no direct war damage, our productive facilities are far beyond the needs of the country and we have by far the strongest financial position of banks, corporations, and individuals—both credit and capital. Goods can be produced in this country to meet even fantastic demands. And, *goods are the real antidote to inflation.* Furthermore, in the past, inflations have always arisen from depressions—never from booms. And, aren't we going to have a boom next year? Higher prices, yes; inflation, no."

But when I said that there was no probability of inflation in the United States, I had my fingers crossed on real estate. Speculators, AAA allotment chasers, city people seeking a hedge against inflation, black market operators fleeing income taxes, individuals with swollen war earnings and a large assortment of plain, old-fashioned suckers have rushed in and driven farm land in many areas and states to unconscionably high levels. Also, developments in many suburban areas have been almost as dangerous. And here is the real tragedy of the situation: Many lenders have contributed to this unhealthy development instead of exercising sorely needed restraining influences.

Of course, there are current economic reasons for these developments—reasons but not justification for the actions of both lenders and borrowers. Among these reasons, the following should be put high on the list:

1. The supply of credit and capital seeking investment employment is greater than ever before.
2. There is a serious fear of inflation and a general belief that real estate is a good hedge against inflation.
3. The supply of available mortgages has been severely limited by the restricted private building activity of the war years and the rapid repayment of mortgages through amortization and otherwise by mortgagors.
4. The cost of construction has increased some 35% over the prewar figure.
5. Many people fear that still further increases in the cost of construction will take place.
6. There is a real housing shortage.

To summarize: The fear of inflation, the higher construction costs, and the expectation that costs will go even higher, coupled with the housing shortage, have in combination caused the rapid rise in property values.

The Outlook for Real Estate

Let us now turn our attention to the outlook for real estate. Before we go any further, however, it might be well to take a look at the housing shortage. Firstly, the assumption that the shortage is chiefly the result of the cessation of building construction during the war is not borne out by the facts. Thus, under the war housing program, between July 1, 1940, and Aug. 31, 1945, there were built 2,290,731 family units, 1,658,007 single-person units and 81,136 stop-gap accommodations giving a grand total of 4,029,875 accommodations converted or built during a period when many think construction was at a standstill!

Before the war there was no housing shortage; in fact, it was the opposite. What, then, has happened to make it impossible now to find a vacant apartment or an empty house? Of course, there have been many wartime marriages and, too, the number of separate families is rapidly increasing, but to my mind these do not completely explain the shortage. Is not the high level of income an important reason? Some people now maintain a *city* home *and* a country home where *one* would do if times were not good. Other people formerly satisfied with hall bedrooms now demand apartments. Still others refuse to "double-up" with the old folks although they would be glad to have the opportunity to do so if the normal economic compulsion were present. May I say that, in my opinion, unemployment and declining payrolls could remedy the housing shortage practically overnight, which is certainly much faster than the construction industry can do it!

However, I do not anticipate heavy unemployment in the next two or three years, and it will take at least that long for the building industry to overtake the present shortage. So, we can safely estimate that the shortage of housing will continue for another two to three years. But, after that, what?

It seems clear that building costs will rise during this initial catch-up period with the result that labor-saving methods will have to be introduced if construction is to continue at a high level. And, when you consider the millions of substandard housing units our people now occupy, the opportunity which confronts the building industry is indeed great; but this opportunity does not lie along the road of higher costs. Housing is not immune to the economic limitations of "ability to pay." For example, the National Housing Agency estimates that out of a total housing need of 12,600,000 units at least 8,400,000 units would have to rent for *less* than $50 per month. Public housing and slum clearance in large volume may, therefore, be expected to get under way in the next two or three years. This will adversely affect the value of a great deal of present property, particularly that occupied by the low income groups.

Government policies will, also, adversely affect real estate values at the other end of the scale. I refer, particularly, to the effect on the value of luxury homes and apartments of the heavy Federal taxes, which we are certain to have in the future, as far as you and I can see. (To say nothing of urban tax burdens!) If you do lend on such properties, do it on a valuation *based on middle class occupancy!*

When the new houses and apartments adapted to modern needs, such as lack of domestic help and smaller families, become available, they will have a very unfavorable effect on the values of buildings erected before the war even though at lower costs. Also, in your valuations you should keep in mind that women are having more and more to say about housing. They are not interested in the beams and the solidity of construction. They don't worry about the foundation. They are not looking for a house which will last a hundred years; women don't like old things! No, they look for gadgets and labor-saving ideas and devices. And, the last thing in the world the modern woman wants is one of those substantial old houses with 10 to 15 rooms, such as the one in which her mother worked herself to death!

Effect of Obsolescence

Don't forget that all buildings are now five years older than they were before the war. Furthermore, practically all of them have heavy *unrealized obsolescence* because of social changes, changes in the American family itself, improved labor-saving gadgets, and heavier taxes. At present, this obsolescence is hidden by the heavy demand for housing and the strong rent structure, but it is there just the same, and it will become painfully obvious in the future.

Business property will be affected adversely by the efforts which will be made to reduce the costs of distribution. The Herculean struggle, which we shall witness in the field of distribution, will undoubtedly have an unfavorable effect on many small independent distributors and merchants, forcing their properties on the rental or sale market. Specially constructed buildings will be required by many of these new chain distributors. This will tend to reduce the value of existing small business property.

Also, easy credit terms will cause many to go into businesses for which they are not properly prepared. The resulting failures will dump distressed property with its chain of consequences on the market.

In view of the foregoing, and many other factors, it is my considered opinion that, while the immediate outlook for real estate is good, the long term outlook is not favorable. This should be fully taken into account by mortgage lenders as their loans tie up their funds for a long period of time.

A Sound Mortgage Policy

What, then, is sound mortgage policy at present? You have to continue operating. You can't just lock the door and say we don't like developments so we won't play! So, as a practical matter, a compromise has to be made on rates if mortgages are to be obtained at all. Likewise, an increase in appraised value beyond the 1939-1941 cost level is frequently necessary in order to meet the competition of some of the other lenders. How far a lender can safely go in this increase in valuation is hard to say. Certainly, no yardstick can be used! Every dollar of every such transaction should be closely scrutinized and watched. Furthermore, such mortgages should require substantial amortization during the next three to five years so that when the inevitable decline in real estate values sets in, the mortgagor will have a substantial equity in his property. Let me say that again: A graduated amortization scale is imperative for the next five years, even if lower rates have to be offered to get such a scale.

In conclusion, may I leave this thought with you. In your operations a conservative policy is indicated if you believe building activity will be high in the next few years, as that will reduce the values of present buildings. On the other hand, a conservative policy is also indicated if you believe that the building boom will be short-lived, because without large scale construction activity, employment will not be satisfactory and payrolls will not maintain the present levels of rent and valuation.

Production or Unrealistic Controls?

(Continued from page 1631)

keep up with those boys in Washington.

Obviously, the President and his advisors don't understand that general wage increases not only affect direct wage payments, but they increase the cost of materials and supplies used by manufacturers. Our Government is doing a grand job of promoting inflation.

Slowly but surely we are working our way into an economic mess, and soon we will find more and more reasons for retaining present controls, and for devising new ones that will continue indefinitely.

The fact that Mr. Bowles is now "The Czar," and that price controls will now be determined at a higher level, doesn't change the overall picture one iota. We will now have new "chills" in addition to the old "freezes," and a continuing unworkable program.

OPA will be doing business at the same old stand, and, if the President has his way, under the same law for another twelve months.

They will still be in position to gaze into their crystal ball and tell all industry what their sales will be, what their costs ought to be, and what profits they will be permitted to earn.

The road to all-out production is still well jammed up.

OPA will still set the Industry Standards. They will determine which of your costs are allowable and which are not. If they determine a manufacturer's "hardship" is temporary, the matter will be closed. If they grant any price concession, they will as a consideration, reserve the right to regulate production, and to inspect the books each ninety days, and to order refunds and price reductions.

The American business man will continue to be treated as though he were on relief, and if he doesn't like it, he can appeal to OPA's kangaroo court.

One fact is crystal clear:

Production will stop inflation only if we can keep OPA from stopping production.

Consumers and the Retail Business

Most of us in the retail business are not happy with the job we are doing. Consumers have been extremely tolerant, and they still are, but there is no earthly reason why they should continue to tolerate extreme shortages of essentials or inferior overpriced substitutes. Nor will they. Consumers will soon coolly appraise our performance and tell us in no uncertain terms that we are not doing a job. And we will give them what they want at a price they are willing to pay, or we'll be out.

We know we have been severely handicapped, throughout the war and currently, by a series of OPA actions that have caused line after line of low-priced goods to disappear from the market, and have forced drastic deterioration of quality as well as price increases in those lines that have remained.

We know, too, that OPA's current unrealistic, theoretical and unfair approaches to pricing problems are impeding production and literally throttling industrial activity throughout the country.

Although the war has been over for seven months, the shortage of consumer essentials is now more acute than at any time during the war.

What OPA Activities to Restrict

Industry must insist that Congress restrict the activities of OPA and require the immediate removal of all inflationary controls, particularly:

Controls that retard production;

Controls that force quality deterioration;

Controls that force items out of production;

Controls that encourage subterfuge;

Controls that hamper reconversion;

Controls that raise the cost of living;

Controls that keep us from doing our job.

We must keep firmly in mind that OPA is a wartime emergency agency, that it has no place in a peacetime economy. Any controls that are permitted to remain after June 30 must be definitely limited.

Nor would I go along with such high-sounding but meaningless phrases as "lifting controls as soon as possible" or "as soon as supply equals demand." These sound good, but they are steel traps. So long as production is held down, demand is bound to exceed supply. Price control means "Production Control." "Successful" price control means retarded production, reduced employment. Industry cannot "deliver" while in a straitjacket. It's like attempting to win a ball game without a bat.

Have Price Controls Been Effective?

But Mr. Bowles "assumes" that price controls have been highly effective and he plans to continue them.

And while suits, shirts, shorts, wash dresses and piece goods are practically non-existent, and while stocks of unfinished goods clutter up our factories and warehouses, appliances that are minus parts, suits without linings, lamps without sockets, or furniture without hardware, Mr. Bowles speaks of "the unexpected speedy reconversion," of our "excellent outlook," and the period of "unprecedented prosperity" that is around the corner. And he describes in glittering terms how "extraordinarily successful" his program has been, and to prove that price control has not hampered production, he explains that in World War I, production increased 25%, while in World War II, under OPA, it increased 116%. Just what connection there is between OPA and War Production is not at all clear. I'm sure they didn't apply their unreasonable tactics in pricing bombers.

Or by quoting overall sales and profit figures of a limited cross-section of industry or group of stores, he attempts to show that OPA activities have not interfered with civilian production. But it's never been clear to me that high sales or high profits on high priced novelties are a valid excuse for not having broadcloth shirts or wash dresses.

We haven't charged that OPA has handicapped sales or profits—we know that they have seriously restricted the production of consumer essentials.

Price controls are currently doing much more harm than good. The strikes which have stifled production and caused so much harm are largely the result of faulty price control policy. Curtailment of production is the worst possible thing that could happen to our country today—much worse in its overall effect than price increases.

And, just at the time when production is sorely needed, our Government threatens a group of manufacturers, by saying in effect: "Unless you ship the goods you are now holding at a loss, we won't let you make any more at a loss." That is really incentive pricing.

OPA Injures Consumers

OPA presumes to act in the interests of consumers, but the fact remains that the bulk of their important regulations, particularly insofar as low-priced essentials are concerned, have worked in reverse, and the end result has been a forced cheapening of quality and disappearance of goods, thus compelling consumers to purchase in price ranges much higher than those in which they would normally buy.

This series of regulations may be briefly described as first, the "Rigid Freeze" technique, which plainly discriminated against the low margin producer; second, the "Highest Price Line Limitation," under which thousands of low-priced producers cannot possibly operate; third, the "Maximum Average Price Plan," which fails to make adequate provision for mounting labor and material costs, notwithstanding the fact that it has been amended countless times; and now in addition to these three, we have "Cost Absorption" at all levels, simply a new name for the same type of unrealistic and inequitable approach as has obtained throughout the past three years.

Keep in mind that price indices do not reflect quality deterioration, nor do they reflect production, or availability of goods, or the Black Market deals which are becoming more and more prevalent, or the cost of subsidies. If we continue to use these for guides, we won't know where we are going or when we get there. Let's throw all these indices in the bay, and put all the cards on the table.

Of course, as every housewife knows, it is ridiculous to assume that the "line" has been held. Consumers spent 84% more money in 1945 than in 1940 for approximately the same amount of goods.

Industry Does Not Favor Inflation

OPA stubbornly adheres to the position that anyone who does not agree 100% with their arbitrary narrow viewpoint is advocating runaway inflation.

Industry has never taken such a position. We have attempted to obtain realistic and honest regulations. We have counseled against discriminating unfair tactics. We have urged that some attention be paid to the words "fair and equitable," and we know that production is the only possible antidote for inflation. But most industry consultations were meaningless and industry advice fell on deaf ears.

Everyone knows that labor costs and consequently material costs have increased sharply since 1942, that operating costs for every type of business are far above 1942, and that industry generally is faced with further increases in labor costs. Under the circumstances, it is hardly possible to prevent some increases in prices to consumers, but this does not mean advocating runaway prices or inflation.

Certainly there is nothing inflationary or extortionary about a FAIR price. OPA implies in their letters to Congress and in their statements to the press that present pricing policies permit manufacturers a price sufficient to defray current costs and yield prewar profits, but all industry knows that this is not the case. The pricing formulas make only partial allowances for current labor and material costs and administrative expenses. The strict application of this policy has been and is currently a major impediment to production. Manufacturers are compelled to discontinue production of prewar commodities they were skilled in making in great volumes, and to shift to lines in which they are not experienced. They have been forced to develop wholly unnecessary "new" products as a subterfuge to obtain price relief, whereas the new products are in most cases not equal to the prewar products in either quality or utility. At the same time, the pricing agency, with their "in-line" theory, has permitted countless thousands of newcomers to enter the manufacturing field and produce similar commodities at prices considerably higher than would be necessary to enable old-line manufacturers to remain in their businesses.

This situation is of course completely ridiculous, but the condition is widespread and inexcusable. And in every instance, the consumer suffers.

I will mention only a few of the countless examples that could be cited.

Cases of Impeded Production

Let's start with the largest manufacturer of work socks in the United States, or in the world, for that matter. His capacity is five million dozen pairs—sixty million pairs of hose. He tried for nine months to get a price that would enable him to produce profitably with current costs. Could this be permitted? Not under present regulations. Was he is the red? If not, he deserved no consideration. Because he had operated profitably on government contracts throughout the war, he could now well afford to produce at a loss.

He's finally given up. He put 80% of his machinery in grease, cut his labor force to 20% of normal, and his overhead to the bone, and now, instead of producing five million dozen work hose, he is producing one million dozens of a "new" number in dress hose for which he was able to obtain a profitable price. And he will make a greater profit on one million dozen of the "new" number than he ever would pre-war on his full production. But consumers will be shy sixty million pairs of work socks.

Lawn mowers are another good current example. Old line manufacturers, that prewar accounted for 85% of total production, are not producing, and the reason is obvious.

Grey castings have increased 35%; malleable castings 45%; labor 50%. Last October, OPA authorized an overall increase of 17%, not nearly enough to cover the increased labor and material costs. Industry has protested, in vain.

OPA requires the low-priced mower to be produced for $6.73. The manufacturer requires $7.76. As a result the largest manufacturers in industry have notified the trade that they cannot produce, and the only mowers available are extremely high priced "new" numbers produced by newcomers in the industry, who are able to obtain high price authorizations under OPA's ridiculous "in-line" pricing theory.

Instances of this kind create very real problems for retailers. Our customers need lawn mowers. Commitments must be made at once to obtain delivery in time. Shall we buy from the newcomers, realizing that we will be selling mowers at much higher prices than if skilled old-line manufacturers were permitted to produce. Or shall we hold off and take the chance of being out of the lawn mower business all season. This entire situation is inexcusable and severely penalizes the consumer.

Chenille robes are becoming increasingly popular. But OPA has just notified that industry that from now on out they will be required to produce under the Maximum Average Price program. This means that the average price of goods produced currently may not exceed the average price of goods produced during a base period in 1943. This is not price control, nor is it legal, but it is in effect. In the case of four or five of the largest producers, production of robes must not average over $2.25 each. The cheapest robes that can be produced today cost approximately $3.25. So, as in the case of thousands of other essentials, chenille robes will disappear and all of the producers will make bedspreads, not subject to the MAP program.

Last month, we contacted 27 producers and found only two that could deliver any robes and both of these are discontinuing production. We did find one gentleman who would deliver 12,000 robes provided they were paid for in cash (no checks) at $7 each. If the MAP plan is continued, your wives can wrap themselves in bedspreads when they go to the beach this summer.

Another instance. One manufacturer produces approximately 90% of the brass shells for light sockets. When his costs increased to a point that made profitable production impossible, he quit. Soon the only sockets available were in the Black Market. Eight cent socket for 60 cents, large size 32 cent socket for $1.25 each.

We might discuss why there is no broadcloth or 80 square cotton print, or why all of our sateen is exported;

Or why 95% of current yardage production is in sub-standard wartime substitute cloths;

Or why it is advantageous to load West Coast lumber in British bottoms;

Or why we have to import a new number in clothespins from Denmark and sell it at twice the price we used to charge for the old reliable product of our Maine manufacturer;

Or why we pay Mexicans over the ceiling price for piece goods for outsized dresses;

Or why plain wooden chopping bowls are not available;

Or why we buy Argentine socks, gloves and bags;

Or why 1 to 6 year olds have to play with dominoes and checkers instead of blocks;

Or why the low-priced electric iron production during the past twelve months has been exactly zero;

Or why we have purchased 250,000 vacuum cleaners from Britain;

Or why babies have to wear excessively heavy weight diapers.

Instances of this kind could be quoted by the hour.

But the answer to each is the same: OPA's adamant refusal to be fair.

Of course there are honest differences on pricing technique, but every reasonable person agrees that competent, equitable, clean-cut and prompt decisions are needed to encourage industry, to put men to work, and to produce goods quickly and thus counteract the inflationary trends that are now being stimulated by forced acute shortages induced by Governmental restriction.

OPA's Bungling and Delay

But instead of prompt decisions, we have continued stupid bungling and delay. It is difficult nowadays to pick up any newspaper or magazine, any day, anywhere, without finding a story or two on how OPA restrictions are retarding progress. All industry has complained—Wool, Rayon, Cotton, Lumber, Steel, Coal, Meat, Dairy Products, Oil—and the complaints have come from primary producers as well as manufacturers and distributors of end-products. Can you help but ask, "Are we all out of step but Bowles?"

It would seem that any reasonable person would accept the premise that no one will produce goods except with an opportunity for profit—but not OPA—at least not the head of their Consumer Advisory Council who insists that industry is on strike, that they need no price concessions, and that they will produce when they get "hungry enough."

If OPA would concentrate their activities on encouraging production, they could get the unqualified and solid support of industry generally. A tremendous amount of good could be accomplished this spring toward satisfying the pent-up demand for "hard to get" goods. If such action were taken now, there would be much less likelihood of any widespread upward price trend when controls are lifted next July.

OPA Has Not Encouraged Production

But we all know that OPA has not encouraged production, that they have not shown the slightest inclination to encourage production. Industry has advocated incentive pricing for years. OPA is finally adopting it. But most regulations have impossible cut off points—a complete farce.

Anyone manufacturing men's broadcloth shirts for $1.03 or less may have a 15% increase. Of course there are no such shirts.

And while needed goods pile up in warehouses, because OPA's MAP plan makes it illegal to ship them, OPA close their eyes and become very much interested in taking controls off imported dehydrated banana flakes, manholes and manhole covers, canned Irish potatoes, furniture made entirely of glass, ice cream sandwich waffles, and imported and domestic canned eels!

You've all seen their untruthful propaganda on oranges and coconuts.

OPA has not shown the slightest intent to prepare for discontinuance of price control—ever.

Chester Bowles says that controls are unthinkable except in emergency and that no one who believes in free economy wants them continued a day longer than is necessary, but as per usual, OPA has taken no action.

I wish that every person here could have seen and heard the ex-real estate attorney who has the job in OPA of determining when price controls can be lifted item by item. And you should have heard him explain what he meant when he took the controls off of all baseball equipment except balls, bats, mitts, apparel and shoes. We thought he took controls off home plate, but no—he meant to include all the bases and the catcher's mask as well.

No, there is no indication of a real desire to take controls off, but rather a self-perpetuating and dangerous program that is bound to handicap industry throughout the transition period, and squeeze profits unduly indefinitely.

And it won't help matters any to have the White House attempt to buy its way out of important pricing messes, after weeks of consultation with advisors with inadequate knowledge of the problem.

A Politician's Paradise

Mr. Bowles' program is a "politician's paradise." He's for higher wages, a shorter work week, a higher standard of living and lower prices. He doesn't even mention production. Of course, this program doesn't add up, but Mr. Bowles can eat a non-existent cake three times and still have it left.

A few weeks ago, I received a very interesting letter from a gentleman in California, comparing the current activities of OPA with the French "Law of the Maximum" of 1793. Interestingly enough, they had base periods then, and maximum average prices. They also made the mistake of freezing prices at unrealistic levels, or not allowing for transportation and distribution costs. Production declined, supplies dried up, quality deteriorated, and black markets reached enormous proportions. Food was scarce. Butter, eggs and meat were peddled in alleys at night. People stood in line for hours to obtain bread. Before long the economic situation became intolerable and mobs marched on Paris shouting, "Down with the Maximum" and "Down with the Law of Famine."

Our greatest need today, as then, is more production and less controls. We cannot possibly have a free economy without free prices.

I wonder if many of you realize how far reaching certain OPA controls are. Do you realize, for example, that they can prevent men from starting new businesses by merely withholding price authorizations?

A wounded ex-prisoner of war, who served over four years in the army, made arrangements with the Veteran's Advisory Branch of OPA to manufacture dresses at $10.75 each. He started his plant, entered into a union contract, committed for materials and started production. His dresses were well received by New York stores and he was going along fine, until OPA's Washington office overruled New York and decided that because before he entered the Army he was a salesman of $8.75 dresses, he could not be a manufacturer of $10.75 dresses. His dresses cost him $9.50 each, but OPA insists he can't charge over $8.75.

All this under the guise of Price Control.

Methods of OPA Supervision

Everyone should read OPA's instructions to their enforcement agents which appear in the Jan. 18 "Congressional Record." This writeup completely describes all the slippery, slimy methods which OPA agents are instructed to use to worm their way into the confidence of a victim and get him to admit he violated some one of OPA's 60,000 regulations. The Gestapo could not have done a better job. To read this, one would think that the business men of this country are the vilest enemies of society.

I am advised that Mr. Bowles hastily ordered all copies of these instructions destroyed. But let me quote from it—and I'll leave a complete copy with your secretary.

A paragraph called "Switch the Blame" is interesting:

"When the facts in the case indicate that another person may be involved with the witness, phrase you questioning to transfer the blame for the illegal transactions to the shoulders of the other party. This eases the tension on the conscience of the witness and make it easier for him to explain the position to you."

Or one called "Animosity to Third Party":

"Endeavor to ascertain the status and degree of friendship between the witness and third parties concerned . . .

"If you find any degree of animosity, play this factor up by inference to the witness's mind . . .

"Point out to him that possibly he is being taken advantage of, is holding the bag, or being played for a sucker . . .

"Each little pin-point penetration that you make in the witness will make him want to sing to get even. When he sings—you write the music."

Or this one:

"Don't argue with the witness. Agree with him even though it hurts. You are there to get the facts. If he damns the OPA, the regulation, the Administration, the Enforcement Division, or you personally, learn to 'take it with a smile.' Convey to him the impression that you think he is probably right. In doing so, you are selling yourself to the witness as being a 'right guy.' This makes the witness feel that whatever he may tell you as to what he did and why he did it will be understood by you in the light that he desires . . .

"When you get the story, you've 'got' the case."

Then follow paragraphs telling agents how to create alibis, to use alternate questions, sympathy, flattery, face-saving, justification, and finally, if they can't get the witness to "break" any other way, they're instructed to use the "false statement" technique.

Who said, "It can't happen here!"

Cost Absorption

Just a word on Cost Absorption, a secondary problem. Mr. Bowles believes that retail margins are excessive. In a letter to Judge Vinson over a year ago, he announced his deliberate plan to "substantially reduce existing retail margins." He started with a limited list of low-price essentials, which retailers generally were quite willing to sell at reduced margins, or no margins if necessary, and at that time it was carefully explained that this was a restricted program, only to be applied to the barest of necessities. Since, we have seen that program expand, line by line, and price range by price range, and the end is not in sight.

OPA justifies such actions by preparing charts and booklets showing national averages in total industry sales and profits.

Of course we all know that we either fail or prosper on our own experiences, not on statistical averages, and it is perfectly clear, considering the wide dispersions of margins and expense rates of the various types of distributors, that it is quite impossible for any pricing regulations based on industry averages to be fair and equitable.

Of course, if volume increases, expense ratios will drop, and margins and prices can be reduced, and industry would like nothing better. But the sales potential of a dry goods store cannot be projected on the basis of a national average figure that includes automobile and appliance sales. Nor can such a figure be used as a measurement of that retailer's ability to lower margins or absorb costs. The ability to absorb varies sharply by type of store and size of store, and volume of sales. The use of a national average figure is quite impossible.

It is well to point out that during 1936 through 1939, with margins substantially the same as today, over half of all retail establishments lost money.

But regardless of retail margins, our greatest need today is production, and unless goods are produced rapidly, we will really experience sharp inflationary trends.

So long as industry is uncertain, confused, and without incentive, we can't expect maximum production.

The answer to all of this is very clear. We cannot permit the extension of the Stabilization Act in its present form.

We cannot immediately remove all controls. Certain of them may be necessary. The acid test of whether or not pricing is adequate is production. I repeat, OPA is a wartime emergency agency, that has no place in a peacetime civilian economy. Continued restrictive control can only be reconciled with a lack of confidence in our productive capacity. Plans must be made for progressive decontrol now and for complete discontinuance of practically all controls by June 30.

I would recommend that industry immediately insist:

(1) That Congress state in plain English that maximum production is far more important than the maintenance of fictitious price levels.

(2) That the job of pricing be restored to industry, to producers and distributors, where it properly belongs, and that OPA, if retained at all, have limited review and supervisory authority.

(3) That every producer be permitted to establish prices sufficient to enable him to manufacture pre-war quality goods at current costs with an opportunity for profit.

(4) That any and all controls that stand in the way of legitimate production be promptly eliminated, and this includes the MAP program, and all like it.

(5) That the false theory that all increases needed to produce goods at current costs can be taken out of the hides of producers and distributors be discarded.

(6) That industry be given the immediate right to challenge any and all regulations in our regular Federal courts.

Unless principles of this kind are incorporated in an aggressive program, and carried out without reservation, our return to normal is certain to be unduly delayed and industry will be hamstrung for years to come.

No Free London Exchange Dealings

(Continued from page 1640)

surrender, however, their foreign exchange to their banks; they will have no right to dispose of them freely.

As for the banks, they will place at the disposal of the authorities their surplus of foreign exchanges, and will cover their deficiencies by obtaining foreign exchange from the authorities, as they have done since September, 1939. There will be no return to the prewar system of feverish activity in the foreign exchange market, with rates fluctuating according to supply and demand; and certainly there will be no return to speculation and arbitrage. Before the war at least 90% of the turnover of the foreign exchange market consisted of speculative or arbitrage transactions, that the turnover would in the circumstances be very small even if free dealings were restored. Indeed, it is doubtful whether in the absence of speculation and arbitrage it would be possible at all to find a counterpart to many commercial buying or selling orders, unless the Government provided it.

Trained foreign exchange dealers will be disappointed when they will realize that they will never have a change to practice their skill. As for the banks, they will accept the change with mixed feelings. The Bank of England itself, having organized a highly efficient department to deal with foreign exchanges, would be reluctant to relinquish that activity in favor of private dealers and brokers. In any case, already under the Governorship of Lord Norman, it had arrived at the conclusion that the resumption of free movements of "hot money" would be contrary to the interests of the country, a principle which was accepted also by the Conservative Chancellor of the Exchequer, Sir Kingsley Wood. And it would be difficult to enforce distinction between commercial foreign exchange transactions and transactions arising from movements of "hot money."

The bigger banks which handle most of the commercial foreign exchange transactions would not be unduly unhappy if the existing state of affairs were substantially maintained. Under the present system they earn a fair profit on foreign exchanges, without taking any risk whatsoever. Before the war they had to give a reasonably free hand to their chief dealer to job in and out of the market, engage in arbitrage, and even to "take a view" (as speculative operations were discreetly referred to) provided that at the close of the day they had no overbought or oversold positions. This activity of the foreign exchange departments was, on the whole, profitable, though if the dealer was caught out once in a while he usually lost all the profit he had gradually accumulated through weeks and months of hard work. Now that no risk need be taken, the executive will have less worries, even if the earnings of the foreign exchange department are not up to prewar level.

As for business firms engaged in imports, so long as they are relieved of the necessity of applying for exchange permit, it is a matter of indifference to them whether the dollars they need are supplied by the Government or by some other business firm through the intermediary of its bank and the foreign exchange market. Nor will exporters be placed at a disadvantage by the maintenance of the rule that they have to sell to their bankers the proceeds of their sales abroad. London has grown used to exchange restrictions during the six war years. The partial relaxation of the control will be welcomed and the City will settle down to its activities under the new system.

Ohio Brevities

(Continued from page 1641)

Nickel Plate preferred stockholders led by a number of foreigners now residents of the United States resulted in Chesapeake & Ohio Railway's withdrawal of its offer to merge the New York, Chicago & St. Louis Railroad (Nickel Plate) last year.

Chairman Robert R. Young made this statement Tuesday to stockholders of Alleghany Corp. which controls the Chessy Lines, including Nickel Plate, Pere Marquette and Wheeling & Lake Erie.

Young declared the leaders of the opposition group bought their NKP stock at low levels in recent years, and the price has risen in anticipation of an offer by C. & O.

"The C. & O. securities offered in exchange for NKP preferred at Feb. 14 this year would have commanded a price of about $152, compared with a market price of $124 a share for NKP preferred at that date. The maximum claim of NKP preferred holders amounts to $184 a share, but if that sum were paid in full, the recipient would have less after taxes than by acceptance of the C. & O. offer," Young stated.

"Not only was the C. & O. offer more than fair, but it also was in excess of anything that the Nickel Plate stockholders may ever hope to receive.

"Before this proposal could be submitted to the stockholders or to the Interstate Commerce Commission, organized opposition developed.

"Unwilling to meet the unpredictable terms of this hold-up group, C. & O. was reluctantly compelled to withdraw its proposal for unification of the four roads," Young said.

* * *

At the annual meeting next Monday, stockholders of Marion Steam Shovel Co. of Marion, O., will be asked to approve an increase in authorized common shares from 100,000 to 400,000 shares and changing the company's name to "Marion Power Shovel Co." A proxy statement also seeks to remove present restrictions of two years on bank loans to permit loans up to 10 years.

The proposed amendment would permit the conversion of a two-year $1,000,000 bank loan, made in 1945, into a long-term bank loan, releasing funds for the rehabilitation of the plant without impairing the company's current position, it was announced.

* * *

One of the best offers made recently for railroad equipment trust certificates, according to Chesapeake & Ohio, was the bid of Halsey, Stuart & Co., Inc., which bid 99.612 for $1,750,000 of 1⅛% C. & O. serial equipments. The bid represents an interest cost basis to C. & O. of 1.198%.

Walter J. Connolly Dead

Walter J. Connolly, head of Walter J. Connolly & Co., Inc., Boston, died suddenly. His firm will continue in the investment business from its offices at 24 Federal Street.

Inflation Under Price Controls

(Continued from page 1631)

have disappeared. But the debt remains, and the increase in the money supply remains.

Since the beginning of the war the money supply, consisting of bank deposits subject to check and of currency outside the banks, has increased more than three times. In addition, the people of the country, individuals and business, hold other liquid assets—time deposits, war savings bonds and other government securities—in an amount also more than three times the prewar figure. Total liquid assets were $225 billion at the end of 1945, compared with $65 billion at the end of 1939. People can convert time deposits and savings bonds into money if and when they so elect.

The increase in the supply of money is the original and primary source of the inflationary pressure. Price control does not operate in any way to reduce the supply of money. Nor will it prevent a further increase in the supply if the Treasury continues to run a deficit and borrows from the banking system.

Price control therefore does not remove the basic cause of the upward pressure. Nor does it cure the other inflationary conditions cited. It does not diminish the ability of people to spend, but the contrary, since to the extent that price control is effective people's money goes further. It does not diminish the disposition to spend, as shown by the rise in spending and decline of saving since the end of the war, the unparalleled volume of retail trade, the amount of travel, the indulgence in recreation and amusement. Obviously it does not increase the supply of goods. No advocate of price control even suggests that it does.

Interest Rates as Inflationary Pressure

There are other sources of inflationary pressure which price control does not touch. One is the interest-rate policy. The decline in interest rates has not had all the public attention it deserves. Shortly after Pearl Harbor a seven-year U. S. Treasury security sold slightly below a 2% basis; there was no material change until the end of 1944, but since then the yield has dropped to 1¼%. Similarly the longest maturities of U. S. Government bonds after holding around a 2½% yield until about a year ago have dropped to a 2.11% basis. Corporate issues have been similarly affected.

We lack time tonight to discuss the technical reasons for this decline in interest rates, or the pros and cons of the Treasury and Federal Reserve policy which has permitted it. But we should not overlook its inflationary effects. A decline in interest rates on highest grade investments inevitably leads to a higher capitalization of income from all investments, in other words, to higher market values for income-producing assets. We have evidence of this in the rise in stock prices, and in the prices of other property, during the past year or so.

This rise is inflationary in several ways. In the first place it produces capital gains for those who wish to take them; and capital gains add to spending power exactly as increases in income add to spending power. To a man who wants to take a $30-a-day vacation in Florida, or to a woman who wants a $5,000 fur coat, it all looks like the same money. In the second place, capital gains probably add to the disposition to spend. They come as a windfall to the prudent and conservative, they are consciously sought by the optimistic and the venturesome, and they carry with them an atmosphere of buoyancy and celebration whose effects extend in many directions.

I also think it may be asserted, even though it is not provable, that the decline in interest rates has promoted further concentration of government debt in the commercial banks, with resulting expansion in the money supply. It makes government securities less attractive to people who want to hold them for income, and diverts demand to higher yielding investments. This leaves more governments for the banks to take.

Price control does not, in general, touch the inflationary pressures generated by declining interest rates. To be sure, at times the opportunity for capital gains is closed in certain speculative markets where prices are at the ceiling. But other outlets exist for speculative money, and no system of control that this country would ever endure could close them all.

This adds one more item to our list of what price controls do not do. They do not reduce, or prevent the increase of, the money supply. They do not reduce the ability or the disposition to spend. They diminish instead of adding to the supply of goods. They do not touch the inflationary pressures created by low interest rates.

To the extent that these problems are attacked directly, the arguments for price control lose much of their effectiveness. The first main problem is, of course, that of Federal spending. It is the Federal deficit which has created the inflationary pressure, and if further Treasury securities are to lodge in the banking system, either because of deficit financing or because of redemptions or shifts of outstanding issues, the pressure will rise further. Fortunately the latest indications in this area are reassuring. The Treasury had a cash surplus in February and undoubtedly also in March, the month of heavy income tax receipts. The budget will be balanced this quarter. There is real hope that any deficit hereafter will be small and that the fiscal year 1947 will show a surplus. Of course there are many uncertainties about such projections. But, in general, we can say that the Treasury deficit is no longer adding continually to the inflationary pressure and will not in the next 18 months to any significant extent.

The figures on the redemption of the U. S. savings bonds are also heartening. February provided a test, for it was a month of strikes, which should induce redemptions by strikers. But new sales, not including the accrual of interest on outstanding bonds, exceeded redemptions by $57 million. We should continue to promote the sale of savings bonds, to encourage saving instead of spending.

Needless to say, the approximate balancing of the Federal budget does not lessen the need for Treasury economy. We ought not to be content with halting the monetization of debt; we ought to get to work reversing it, which will require a budget surplus and retirement of government securities from bank holdings. A start has already been made in debt retirement, but out of the cash balance previously borrowed rather than out of a current income surplus.

We also need economy so that we may produce a surplus and at the same time provide tax relief in quarters where it is badly needed. Tax policies, however, must be one of the reliances in the battle to reduce inflationary pressures at the point of origin. The principle is that taxes should bear upon spending rather than saving. Excise taxes, for example, are appropriate to the needs of the battle against inflation, as a means of diverting more of the excess purchasing power from the markets.

Attack Inflation by Monetary Policy

Direct attack upon the basic causes of inflation may be made through monetary policy. A general policy, and specific measures, originally designed to facilitate credit expansion in order to support the war financing, are still in effect, although the war has been over for seven months. The Treasury does not appear to have in mind any early reversal, and although Federal Reserve officials are impressed by the need to reassert some control over credit expansion, and Chairman Eccles of the Board of Governors has expressed himself forcefully on the question, the System has not been inclined to move independently in the face of Treasury opposition. What may happen in the weeks to come of course I cannot forecast, but the present situation is that the framework of our monetary policies, at a time when an approximately balanced budget is at hand, is still the same as that devised to support unprecedented Treasury requirements for funds.

Since the Treasury is not at present pumping out purchasing power, we should not contend that the full responsibility or even the major responsibility for combating the inflationary danger can now rest on monetary and fiscal policy. If we try to do the job by monetary measures alone, they would have to be impossibly restrictive. Nevertheless, the arguments for extension of price control will have a hollow ring in many ears as long as unified fiscal and monetary policies appropriate to present conditions and to the inflationary danger are not established. Paticularly we must guard our budget, and keep ourselves secure against a return to deficit financing and monetization of debt

The inflation of money purchasing power is now a hard fact. Let us now consider elements which accelerate and compound its influence. Wage controls also are a part of our subject here tonight, and most appropriately so. Recent increases in wages have done more to activate the latent inflationary danger, and to put difficulties in the way of price controls, than any other development.

Wage Control

Since our subject is wage control I should like to ask, and I do not intend this flippantly, have we any wage control? The labor unions, having received if not all they wanted at least more than they expected, are now prohibited from obtaining wage increases in excess of an industry or area pattern, if the effect is to raise prices. However, all who have not yet received as much as the pattern are invited to make new demands to come up to it. Is this wage control? Or is it merely an interlude, relatively peaceful, between the satisfaction of one set of demands and the presentation of another—an interlude during which controls will be in existence, but largely nominal.

After V-J day wages were decontrolled, with scarcely a voice heard in opposition. It was recognized, I think on all sides, that wage controls suitable and enforceable in time of war would be inappropriate, unenforceable and disruptive of true collective bargaining in time of peace. There has followed, cumulating in recent weeks, a succession of wage increases manifestly too great to be absorbed without raising prices. Immediately, the wage-price spiral was accelerated, while monetary factors receded in relative importance. Now we have to realize that what we suffered from during the wage decontrol period was not the absence of controls. It was the kind of wage policy followed by many labor leaders and supported by the Administration. It was the positive actions resulting in the excessive rise of wages, rather than the negative action of releasing wages from control, which mattered.

The question which now arises is whether we can justify continuation of price control on the ground that wage policy has augmented the inflation danger. Where does this argument lead us? Many labor leaders have said that the increases recently obtained were only an installment on what they expect to get. I believe that the consensus among knowledgeable people would be that many labor unions will continue to demand wage increases outrunning the increase in labor productivity. If so, new upward pressures will be exerted on prices. Are we then to maintain price controls to escape the fact of this pressure? If so, no end can be seen.

In this period of wage and price adjustments we have fumbled an opportunity to move far more rapidly toward capacity production of civilian goods than we have done, and on terms which would maintain cost and price stability. For two or three months after V-J day the prospect was bright beyond all expectations. There was reason to think that the automobile industry in general would be under strong momentum by the turn of the year and moving toward full production by Spring. Meanwhile, however, the conditions which have led both to curtailment of production and to increases of costs were developing. Mistaken fears of deflation and depression led the government to support demands for large wage increases and other measures "to maintain purchasing power." Government memoranda arguing that large wage increases could be paid without advancing prices strengthened union demands.

The moment when these forces culminated was marked for history, I think, in two sentences uttered by Mr. C. E. Wilson, President of the General Electric Company, a man devoted as thousands and millions of others are in this country to the philosophy of trying to make goods better and at lower costs. Just before Christmas Mr. Wilson announced the decision of the General Electric Company to offer a wage increase and to apply for price increases. He said it was apparent that "the company can no longer adhere to its policy of maintaining prewar price levels. We regret that through this decision we join the forces of inflation."

Opportunity Passed to Apply a Stabilization Basis

Let those who in the future will write the chronicles of this period take note of those words as a curtain dropped on a glorious opportunity, as a reluctant retreat before a national failure to establish policies and achieve unity in making them effective which would have provided a stable basis for the reconversion period.

For the purpose of combating inflation, which is my part of this discussion, we must therefore concede that price control can have beneficial effects. At the same time, and again within the framework of anti-inflation policy, it has harmful effects. It harms us if it restricts production, not only because production is the source of welfare and progress, but also because restriction of production prevents a final solution of the problem of inflation. It is just as vital to get increased production, on one side of the question, as it is to reduce the supply of money—actually or relatively—on the other.

Price controls do restrict production. I think the industrial organization of this country in a very short time could turn out 15% to 20% more goods than it is now turning out, and that repressive OPA ceilings are one of the reasons why we are not doing better than we are. But I also think that there are some areas where the effective limitations on production are not those of price, and where de-control would be followed by price rises all out of proportion to any new production that they could induce for a long time to come. We ought to continue controls in those areas, wherever they are truly important in our economy and particularly in our cost of living.

These are momentous decisions that are being taken in Washington. Apparently the Price Control Act will be renewed—let us hope with amendments which will severely limit the controls and liberalize standards, both those which govern pricing and those which govern decontrol; and that the renewal will be not for a year but for a shorter term. We should concern ourselves with two dangers. First, that in relying upon price control to fight inflation, we shall rely upon it too generally and too exclusively, and that the direct attack upon the monetary, fiscal and wage aspects of the problem will be weak and inadequate. The second danger is that the American people may become too willing to accept price fixing as a substitute for the free market which is the soul of free enterprise.

I presume that Mr. Bowles is gratified by the fact that an opinion poll has shown that 80% of those polled believed OPA has done a job ranging from fair to very good, and that 75% think the price ceiling law should be continued after June 30. I wonder if there should be gratification at such a vote. I think it is something to ponder. I doubt greatly that it is in any sense the expression of an informed or thoughtful economic opinion. Rather, it is the evidence of the existence of another pressure group in the country. For inevitably—and I say it with full respect and sympathy—it seems to me that the answers to such a question must be governed by the feelings of housewives and others who are conscious of their function as consumers, but not of their responsibility as members of a co-operative productive organization. Government interventions produce pressure groups, as they long ago produced the farm bloc, the labor bloc, and let us say, too, the tariff bloc and others.

Perhaps you will ponder another point also. If we place the beginning of economic literacy and awareness of economic principles and events at the age of 20 or 21, there is no one in the country today under the age of 24 or 25 who has ever intelligently observed the working of a free market in anything. In most agricultural commodities, no one under 35 or 40 has witnessed, with mature observation, a truly free market.

A Device of Statism

Price control is a device of statism, of totalitarianism. It exalts the decisions of government above those of the free individual, in a sphere where all history seems to me to have demonstrated that the combined decisions of free individuals will produce a superior result. In the modern world we expect government to do many things which affect business. We are puzzled to know where to draw the line against government intervention. In this case the line is clear. Government necessarily affects the climate, the environment, the atmosphere in which business decisions are made. But when it withdraws the power of individual decision from business management it cannot expect that the system of free and voluntary association in productive enterprise will function at full efficiency.

The trouble with overhead control of prices is that it doesn't function unless it is supplemented by other controls and compulsions. The trouble with controls generally is that there are not enough brains in the world to do the job. The tensions, strains and responsibilities become unbearable. The evidence is on all sides. Consider the situation in the grain markets, the distorted price relationships,

Investment Education and Publicity

(Continued from page 1637)

nium or oil. They are pitifully ready to become the victims of the confidence man's technique. It is not enough for public authorities to spend their efforts in catching swindlers after they have fleeced their victims; there must be some kind of prevention worked out which can protect the investing public before its savings are lost.

Investment Public Worthy of Protection

Today's investing public is particularly worthy of protection. It includes the young soldier home from the war, with a few hundred dollars in savings and mustering-out pay; it includes the beneficiary of the gold-star veteran's life insurance policy, father or mother; a young widow; it includes the war worker who sees his savings disappear as reconversion lags and who desperately tries by "investing" his cash to win security for these troubled and doubtful years. These are all people who are not normally part of the investing public and who therefore are not informed either of the actual valid operations of bona fide stock salesmen or of the existence of the fraudulent dealers.

These are the people who normally in the course of the next 20 years would become the financial backbone of the investing public; it is therefore a matter of prime importance to see that their first experiences are not the tragedies which follow the operations of the swindlers.

How to achieve this protection for the would-be investor is a difficult problem. It is not possible to legislate investment intelligence into the buyers' heads. A campaign of education appears to be the only solution of the difficulty. Somehow these unwary people must be told about the differences between true and false investment.

The Educational Campaign

This campaign of education has been undertaken by the Educational and Publicity Committee of the National Association of Securities Administrators. The committee has taken the position that its duties are to work with the administrators of the various

the allocations, the contentions and confusions over the world. Compare it with the past in which price governed distribution—in which the grain merchants of the world performed almost automatically, and with a minimum of conscious planning, the task which today has us dissolved in confusion.

Danger of Further Inflation

We are faced today with inflation and with the menace of further inflation. It is a condition, not a theory. We are about to extend in some degree or manner the Price Control Act. It ought to be extended in little degree for a short time, and not in full degree nor for a long time. It may turn out to be a good or a bad thing. If the controls are liberally administered, they will gain us time —time which we have used so inadequately in the recent past. Let us not deceive ourselves, however, by thinking that the battle against inflation is inherently a battle to control prices. Rather it is a battle to increase production, and to do it without increasing the money supply further. It is a battle to limit Federal expenditures and balance the budget. It is a battle in which monetary policy is a weapon. It is a battle requiring individual self-restraint, working and saving instead of spending and adding to the pressure in the markets until the supply of goods becomes more adequate. It is a battle for unity and cooperation.

states. This is accomplished by passing on to the various administrators, suggested material and ideas to be used in the various states in carrying on their respective programs. To the Securities Administrators and other interested organizations the committee has sent, during the year 1945 and continuing during the year 1946, a series of releases covering a variety of subjects ranging from an explanation of the notorious swindles now being practiced, to suggested publicity for the general education of the public in buying securities.

These releases contain for the most part, material which the recipient might pass on to its special public by means of form letters, posters, and placards or advertisements in the newspapers and magazines. Many institutions were so impressed with the value of such a campaign that they used all the methods suggested above to put the dangers of unwise investments before the people.

A typical advertisement printed herewith, submitted by Miss Ruth Ruen, Secretary of the Michigan Corporation and Securities Commission to the National Administrators, is well worth reading:

Miss Ruen states in part: "In the event the banks, or some other agency, did not publish it, the blank at end of the page for 'Name' could be eliminated and it could be used as departmental advertising. In this case, where 'Name' is shown, the banks will use their own names and addresses. The mats cost 10 cents each in case such information is desired."

Another release contained a poster entitled "Our Open Letter from the New York Stock Exchange." This letter told in the clearest possible terms the value of hanging on to series "E" War Bonds. The dramatic graph on the leaflet showing the increasing value of the bonds as they are held for full time instead of being cashed immediately, ought to help the owner on the way to cashing war bonds to stop and consider.

Or there is the folder, "Speculating in Gold Mine Stock," published originally by the National Association of Better Business Bureaus in New York City. This folder has a most effective heading—torn strips from a number of phony stock prospectuses are scattered across the heading—"Make More Money Faster! The biggest boom in Canadian History! $48,000 to the ton! Canada's greatest gold mining development! 700% profit in one year! Buy now and I'll get you out with a profit! Buy now and hold for future development of this budding mining empire!" So shriek the headlines, each with its breathless exclamation point. There follows in the pamphlet a most illuminating discussion of two Canadian gold mine promotions, the present promotion by which so many ignorant United States investors are being freely victimized by stock salesmen operating safely across the line in Canada. *This must not be confused with the legitimate gold mines in Canada*, whose existence and productivity give the promoters a talking point.

Methods of "Finger Men"

Through the operation of local "finger men," that is, men who investigate a community to find out who may have a little money to invest, a list of names, addresses and telephone numbers gets into the hands of the stock salesmen. To the name on the list go the enticing circulars: "250% profit within the past few weeks! It may be the biggest gold mine in the world! Avoid disappointment by ordering at once!" Sometimes the circulars bring responses from the addressee; after all, fortunes have been made by buying gold mine stock, and speculation sounds adventurous and romantic as well.

These inquirers' names go first on the telephone list; but whether the recipient of the folder writes about it or not, his telephone number is going to be called. One evening when he is home from work, the phone will ring on a person to person call—long distance. The operator will say—"Toronto calling!" and while the man in the United States waits for the connection to be completed, he develops a healthy respect for the unknown in Toronto. Phone calls cost money.

Then a husky voice full of badly suppressed excitement speaks. "This is Joe Doakes of the Duxandrakes Mine. You remember, you are on our preferred customers' mailing list! I've just got a flash! They struck it rich at Duxandrakes! When this news goes out, the stock will go sky high! Better put in your order right away. How many shares?"

All the would-be investor has to do is to sign a check. The price of the shares is ridiculously low. The investment might bring in the riches most people dream about.

The persuasive voice on the telephone goes on, far past the three minute limit of most frugal telephone calls. Far too many times the veteran or the veteran's widow or the war worker or the school teacher who never had a hundred dollars to invest before gives an order over the telephone and later puts the check in the mail.

The Duxandrakes mine, which consisted mainly of an office with a telephone, charges off the $30 worth of phone call to overhead, collects the $170 balance of the $200 check as pure profit, and gets another number by long distance to the States.

Following the distribution of this release in the United States, so much publicity was given the Canadian gold mine situation that even the Canadians took notice of it.

Canadian Mining Boom

The greatest difficulty in educating the public away from the phony gold mine stock market is the existence of an actual boom in bona fide Canadian gold mines. These reputable mines suffered from the adverse publicity given the fly-by-night dealers in Canadian gold mine stocks.

The Hon. George A. Drew, Premier of Ontario, stated: "We do not believe it is within the power of any government agency to take investors by the hand and guide them past every pitfall they may encounter. Investment in securities is at all times a speculation. This is particularly the case of mining securities in the early stages of exploration and development."

The general feeling by some is that if an investor is so unwise as to buy stock on the basis of a telephone conversation from an unknown individual, little can be done for him and he might as well be victimized first as last.

This is not the feeling of the National Association of Securities Administrators. They know of course that there will always be some members of the public who cannot be educated. But if there are only a few who can be saved from the tragic consequences of their ignorance, the effort at education will have been very much worth while. A campaign of public education by a state authority warns not only the investing public, but also the sharpers and confidence men that in this state the authorities are alert and interested in preventing swindles as well as in capturing and punishing swindlers.

The Ontario Securities Commission upon the initiative of the Hon. C. P. McTague, Securities Commissioner, has undertaken steps to correct any bad condition which may exist among certain operators located in Toronto. Mr. McTague is to be highly complimented upon his corrective measures which he has launched.

The Nebraska Campaign

The Nebraska Bureau of Securities is part of the State Department of Banking. A letter went out to all the banks of Nebraska from the bureau on Oct. 17, 1945, which states very clearly the purpose of the Nebraska educational campaign.

"The Department of Banking has as one of its divisions and under its jurisdiction, the Bureau of Securities. This division administers the Blue Sky Law of Nebraska. One of the functions of the bureau is to police the state as to illegal securities transactions and to warn the public against securities frauds.

"It is anticipated that there will be a tremendous increase in frauds by confidence men in the near future. Swindlers have prepared their postwar planning and will exert great effort to obtain a large share of the 148 billion dollars of savings stored up in war bonds and bank deposits.

"One of the methods used to prevent such crimes is distribution of information and warnings to the public in advance.

"Every dollar lost in frauds is one less dollar prosperity to your community. Your cooperation in this program will be greatly appreciated."

On Oct 23, the Education and Publicity Committee of the National Association of Securities Commissioners was able to inform the Commissioners as follows:

"We are happy to advise the Commissioners of the fine reception obtained from the various banks of Nebraska. They are following our suggestions set out in the letter of transmittal attached to release No. 58. Further distribution is being obtained by banks requesting a supply of this material to enclose with their bank statements and other mailings. One bank is reprinting this material at their own expense and sending it to 6,000 customers.

"We are finding in Nebraska that business concerns and organizations are taking this publicity very seriously and are cooperating in an effort to warn the public against securities frauds. We believe that every state will find this splendid cooperation to exist. Respectfully submitted: Harold Johnson, Chairman; Allan S. Richardson, Edward J. Samp, Ruth Ruen, Kenneth Weddle."

There are, as has been said before, always those members of the buying public whose desire to get something for nothing is so strong as to blind them to the plainest signs of the swindler and the confidence man. For them there is little protection anywhere. But there are also those whose sheer ignorance makes them easy prey for fraudulent stock swindle. They are the people who hear vague talk of the new products which will be available for the world of tomorrow and who buy stock in a phony plastic company on their half knowledge; the people who hear of the gold rush and who lend a receptive ear to the man calling long distance; the people who have shuddered over the atomic bomb and who would invest hopefully in the company preparing a secret defense.

The only thing that can save these people is to make them aware of the existence of swindlers along-side legitimate stock salesmen, to give them an opportunity to learn the elementary truths about investment in securities and, to hope that they will find the knowledge thus offered a safe guide through the mined fields and booby traps on the road to financial security.

Just *One Minute* Please

DON'T TAKE A CHANCE

Before You Invest...

INVESTIGATE

NEW industries—new businesses—will follow the war's end and begin shaping the world of the future.

Planes and plastics, radar and rayon, transportation and television, will show the way to the new world of our dreams.

Capital is needed to make these dreams come true.

Invested capital will earn profits—if it is invested wisely!

We urge investors to exercise caution in making investments.

Do business only with REPUTABLE men.

Get information from the Michigan Corporation and Securities Commission, Bank of Lansing Bldg., Lansing 4, or 2000 Cadillac Square Bldg., Detroit 26, as to whether or not the man who solicits you is properly licensed and his proposition is legitimate.

[Name]

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visable for a better consumption of products and the encouragement of international commerce.

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Hugues Le Gallais, Luxembourg Minister to Washington, on Luxembourg's Recovery

When asked by the "Chronicle's" reporter to comment on the economic situation in Luxembourg since the liberation, Mr. Gallais observed:

"The northern part of Luxembourg, which is agricultural, was partly devastated during the Battle of the Bulge, but very fortunately the southern part of the country, which has the iron ore mines and the steel furnaces, escaped damage. To repair the devastation in the north would take at least several years, we figure five years, and the Government is helping all those who have suffered. Obviously, to enable the country to recuperate our steel factories must work.

"Luxembourg is 80% self-sufficient as to foodstuffs. Of course we are a great exporting country and serve the largest steel production per capita of any country in the world. And, naturally, we are vitally interested in the stabilization of exchanges, in the promotion of sound foreign trade, and, therefore, in the Bretton Woods institutions.

"As you know, Luxembourg and Belgium have a customs union, which means that there are no import duties on commodities moving across the border. There is also a union with the Netherlands, although this still has to be ratified by the parliaments.

"The monetary unit of Luxembourg, the Luxembourg franc, is identical in value with the Belgian franc. Incidentally, we have profited from Belgium's example in tackling currency-stabilization problems. We have followed closely the program worked out during the war in London, and in working out that program our representatives cooperated with Camille Gutt, who is at this Conference as Belgium's Governor of the Fund. We have been able to put those plans into effect.

"It is noteworthy that in Luxembourg there has been no black market at all. Our problem is of course not as complicated as that of a larger country. Luxembourg's population is only 300,000. We are hard-working people like the Belgians."

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Asked to comment on the labor situation in Luxembourg, Mr. Gallais observed:

"We have had no strike in Luxembourg for 20 years."

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Statement by Ethiopia's Governor

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"The State Bank of Ethiopia is wholly owned by the Ethiopian Government, and besides being fiscal agent of the Government is the bank of issue and the sole commercial bank of the country. This bank was established in 1942 soon after his Imperial Majesty Haile Selassie returned to his throne.

"Although Ethiopia has had a most difficult time in reestablishing its financial machinery because of lack of personnel, remarkable progress has been made and the country has operated on a balanced budget each year since the reoccupation. It has no internal or external debt.

"Ethiopia is probably the first of the occupied countries which completely reestablished her currency. In July, 1944, the new Ethiopian dollar (burr) was issued. This dollar exchanges with the U. S. dollar at the rate of 40¼ cents per Ethiopian dollar. In keeping with the requirements of the Bretton Woods Agreements, the Ethiopian dollar's value is expressed in terms of gold, one dollar being held equal to 5.52 grains of fine gold. Both notes and coins are in use. The notes are of the following denominations: $500, $100, $50, $10, $5 and $1. There is a silver coin of 50 cents and copper coins of 25 cents, 10 cents, 5 cents and 1 cent. The notes were printed in the United States by the Security Bank Note Company of Philadelphia, and the coins were minted by the U. S. Mint.

"The present amount of coins and notes issued totals $35 million. This new currency replaces the silver Maria Theresa Thaler, which has circulated in Ethiopia since 1780. During the Italian occupation a very strenuous effort was made by the Italians to make the Italian lira the currency of the country. They were not successful in this because the native refused to accept anything but the Maria Theresa Thaler in payment for his products. This difficulty has not been encountered by the new currency, which is being accepted throughout the country. The Maria Theresa Thaler has not yet been outlawed in Ethiopia, but circulates at its silver bullion value, its rate of exchange with the Ethiopian dollar being published each day by the State Bank. However, it will eventually disappear from circulation because the State Bank, while permitted to purchase the Maria Theresa Thaler, is not permitted to recirculate it. Therefore all Maria Theresa dollars coming into possession of the bank are shipped out of the country and sold as bullion in the open markets of the Middle East, where a premium on silver has latterly prevailed.

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"After consultation with the Chancellor of ... much regret that I am unable ... paragraph in the Report of the ... relates to the remuneration of ... Directors and their Alternates, ... would lead to severe and well ... criticism to load the budgets of ... with such high emoluments for ... of officials. It is all the worse ... we have even begun to consider ... actual staffs, who will, we ... sponsible for the burden of da... when the available income for ... is still uncertain.

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"Ethiopia is primarily an agricultural country and is very widely cultivated, the principal products being wheat, barley and livestock. The number of livestock is estimated at 22 million head. Some progress has been made toward industrialization and there is now a large cement factory and cotton mill within the country. The principal power is hydro-electricity."

Mr. Blowers was born at Pineville, Ky., in 1906. He attended Columbia Military Academy, Columbia, Tenn., and Harvard College, from which he graduated with a B.S. (Economics) in 1928.

After graduating from Harvard he joined the National City Bank of New York's foreign service and served with them in London, Singapore, Shanghai, Tientsin, Hankow and Peiping until 1937. From 1939 to 1943 he was general manager of the Bank of Monrovia, Liberia, and during this period changed the currency of Liberia from the pound sterling to the U. S. dollar. When Ethiopia wanted someone to help establish its new currency, Mr. Blowers was suggested by the U. S. State Department, and so from 1943 to the present Mr. Blowers has been Governor of the State Bank of Ethiopia.

* * *

The Peruvian Bonds

Interviewed at Savannah concerning a press report (New York "Herald Tribune" of March 15, "Wall Street Comment") criticizing the Peruvian Government and himself for not having resumed service on the defaulted dollar debt, Carlos Montero Bernales, Governor of World Bank and former Minister of Finance, said:

"I do not know to which Peruvian statement the press comment refers. I am able to tell you that when I came to the U. S. A. in November, last, we made some negotiations with the Foreign Bondholders' Protective Council in New York. The Government of Peru has presented the Peruvian Congress following my return there a project of settlement for the dollar debt. This was in December, 1945. That project is now under the consideration of the Congress there. There has been a delay due to the consideration of the budget. We reached an unofficial agreement in New York. In presenting the plan to the Congress of Peru the Peruvian Government has carried out its promise."

From reliably informed sources here it is learned that the terms of the plan informally resulting from the conversations with the Foreign Bondholders Protective Council are:

Peru recognizes the principal of the debt.

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1% interest will be paid from Aug. 1, 1945 through 1946; 1½% during 1947; 2% during 1948; 2½% during 1949, and commencing Jan. 1, 1950, 3% interest and ½% amortization.

Contrary to newspaper reports, informed quarters state that Mr. Montero received the full confidence of his government after he returned from New York and revealed the results of his talks and understanding with the bondholders' representatives. When he resigned as Finance Minister, it was with the entire cabinet.

Mr. Montero was unable to tell the "Chronicle's" representative here how much of Peru's dollar bonds in default have been repatriated by Peruvians by open-market purchases at default prices.

* * *

Keynes Holds Salary Payments Too High

Following is text of statement made at Savannah by Lord Keynes on March 16:

"After consultation with the Chancellor of the Exchequer, I much regret that I am unable to support the paragraph in the Report of the Committee which relates to the remuneration of the Executive Directors and their Alternates. We feel that it would lead to severe and well-justified public criticism to load the budgets of these new bodies with such high emoluments for so large a body of officials. It is all the worse at a time before we have even begun to consider the costs of their actual staffs, who will, we hope, be mainly responsible for the burden of daily business, and when the available income for such expenditure is still uncertain.

Lord Keynes

"It is not uncommon to find that one mistaken decision leads to another. If we had foreseen at Bretton Woods what was going to happen—and it has turned out widely different from our expectations—we should certainly have proposed that the remuneration of the Executive Directors and their Alternates, who, as distinct from the staff, are National Delegates, should be provided or shared by the governments appointing or electing them and not by the institutions themselves. This would have allowed the necessary elasticity for adjustment to the widely differing levels of official salaries in different countries. Unfortunately, that course was not followed. The difficulty facing us has been greatly increased by the decision to provide for whole-time service by directors, a decision which we believe to be inconsistent with the best efficiency of the institutions; and still further aggravated through the wholly unexpected provision for whole-time services by Alternates, not merely in the absence of their principals, but in addition to them. Nor do we believe that most countries can wisely spare from their own pressing problems the services of so many individuals of the calibre indicated.

"These decisions, however mistaken in our opinion, have nevertheless been made. The difficulty of the resulting dilemma which faces us is obvious. A more unpleasant duty than that which falls to me today I have seldom experienced. I do not wish to deprive any man, especially old and respected friends, of their due and proper reward. But in our view so large a body of persons cannot properly be remunerated on the very high level proposed, which equals or greatly exceeds the highest remuneration available in most countries for public service.

"My country feels, therefore, that they cannot share in any way the responsibility of this decision."

* * *

Functionaries and Their Emoluments

In planning for the early May meeting of the executive directors of the Fund and Bank, representatives of those countries whose directors were elected at Savannah and not appointed are discussing plans for assuring representation of the maximum number of their fellow countries. It is therefore expected that many of the elected executive directors will appoint as their respective alternates, nationals of one or another of the countries which at Savannah helped elect them but which otherwise could not put their elbows at the council table.

This sharing of the honors—and the powers—certainly will be practiced by the Latin Americans among their group, by the Near Easterners among themselves, and by the Europeans likewise. For example, Czechoslovakia at Savannah secured one of the Fund's executive directorships with the help of Poland and Yugoslavia.

The Czechoslovakian director must select his alternate. His alternate therefore is likely to be a Yugoslav or a Pole. And on the Bank, the Poles secured one of the executive directorships for Mr. Baranski, who therefore may be expected to chose as his alternate a Czechoslovak or a Yugoslav.

There are, as matters stand, twelve executive directors of the Fund and twelve of the Bank. With the same number of alternates there are therefore a possible four dozen jobs to be allotted. In each institution five of the places are set aside for the "Big Five" and therefore are not elective. Since the Big Five are not beholden to the voters of others, they are under no pressure to divvy up with other nationals.

With the score of Latin Americans, however, this is not the case. The Latins are limited to two executive directors and two alternates on the Fund and the same number on the Bank. The executive directors are elected for two years. Having made inquiry, the Latin Americans—and this goes for others, too—are satisfied that they may rotate the alternate directorships more frequently than every second year. The chances are they will do so every year. If this becomes the general practice, it is possible—since the executive directors under the Savannah compromise need not be personally present in Washington throughout their terms of office—that practically the whole membership of the institutions will at some time or other participate in the work of the powerful executive boards.

Some of the foreign governments fail to see why such a large and highly paid board of directors and alternates is necessary. The British, of course, were most vocal at Savannah in their opposition. **Lord Keynes is quoted as using the word "scandalous" to describe the high salaries which the inaugural meeting there voted to the executive directors and alternates.** It is interesting that the strongest fight for the high emoluments was made by one of the beneficiaries of the decision, Harry White. His highest pay to date, $9,800 a year as Assistant Secretary of the Treasury, automatically becomes the equivalent of about $25,000 a year when he assumes the post for which the Senate some time ago confirmed him: United States Executive Director on the Fund. The Senate did not pass on the salary, which is $17,000-after-taxes. **That salary was fixed only this month at Savannah, after what one of the British delegates describes as "bulldozer" tactics.**

Even more puzzling to foreign officials than the large group of executive directors with net salaries second only to the President of the United States is the so-called Procedures Committee created at Savannah to function between meetings of the full board of governors of Fund and Bank. With between two and four dozen executive directors and alternates to be on hand at all times, these officials profess to wonder at the need for an additional committee not contemplated in the Bretton Woods agreements.

The defense of the high salaries for the executive directors centers on the argument that this was necessary to attract the ablest talent from the attractions of Wall Street remuneration. So far, all that it has done is attract a couple of government economists from the best pay they have ever earned to a take-home pay from two to three times as large. **The reactions of Washington's bureaucracy, already seeking a general pay boost, will be watched with interest.**

Ohio Municipal Comment

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that business, in America at least, will be active and profitable, that employment will be high, in fact, that everything will be "rosy" for "at least a few years." In such an environment it is only human for investors to pay only lip service—if actually even that—to preparation of one's portfolio for adversities of the future. True enough, we sometimes hear some modern Elijah warn of the dangers that lie ahead, and frequently we echo these warnings in conversation with our friends. Sometimes even we may actually become exercised about these dangers facing us, and lament that nobody appears to be willing to cooperate to alleviate these dangers.

But if our thoughts actually go as far as considering what should be done to prepare our portfolios for adversities, we usually only "think it over," and if we actually reach a conclusion it is too often that we are "too busy" to do anything. "Busy-ness" is so universal today!

In such an environment it is only human to look at the yield rather than at the quality of the borrower. And such has been the tendency, indeed the almost universal practice, for the past few years; and probably such will continue to be the practice until something develops to shake the present universal confidence.

Longer Maturities Also Being Bought

It must be admitted that during the years of the war financing most banks and other institutional investors of the country added vast amounts of Government securities to their portfolios, and it may be argued that, therefore, the quality of their assets is today higher than it has ever been. Without arguing the point, however, it is true that even as Governments were bought in large quantities, other securities, certainly municipals at least, have been bought with less and less consideration of quality for the reasons mentioned above. Moreover, as the confidence referred to above approached more and more a state of complacency, investors have bought their Governments with less and less regard for maturity.

In these circumstances, it is indeed encouraging to see more bankers around Ohio buying short municipals at yields under 1%.

A Post-War Economic Policy

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questions involved in the above points and related subjects.

Remember that a sore or rotten spot anywhere in our system spreads and causes an illness everywhere.

Avoid an economic dictatorship. We are still a free society based on the enterprise system. Let us abolish neither without the consent of the people.

And, above all, we should keep in mind that the humanities come before the dollars. It may be trite to say it but it should be said again and again—that our first duty runs to Man before Business, but we must not forget that sometimes the two are interchangeable.

Having finished with an index, I proceed to my content.

"The Race of Selfishness Is On"

There is nothing much I can add to the statement I made before this honorable committee on Sept. 19, 1941. What was applicable then is applicable now—with this difference. Then we were about to fight the bloodiest and most devastating war in all history. There was unanimity of purpose in the country which grew with the war's approach. Now there is a new feeling that comes because the war is over. The race of selfishness is on—each segment of society and each individual seeking an advantage over others. The shooting war may be over but its aftermath—military, economic and spiritual—is still here. Before the peace terms are set, we are adopting a scuttle-and-run policy on all fronts, eager to get home and back to normal. Pressure groups are on the march.

On Sept. 19, 1941, I said—

"Except for human slaughter and maiming and all that goes with them, inflation is the most destructive of the consequences of war. It might double or more the cost of the war, it imposes the severest hardships on our people, and, through inevitable deflation that follows, burdens the future with a constantly increasing debt and a long period of painful and bitter readjustment, destroying the confidence of people in themselves and their Government, leaving them open to all the old and new isms. * * * With payrolls soaring and shortages developing, more money bidding for less goods, the danger of an inflationary price rise is imminent. If it is not taken firmly in hand in time, it may get beyond the possibility of control."

That can be said again today. Let us stop trying to do a thing but not do it both at the same time. We either must suffer what inflation brings or prevent it.

Price Control Alone Not Effective

I have advocated for war time an over-all price control, including wages, adjusting injustices or hardships where they exist. Price control by itself will not be effective. It must go hand in hand with a sharply defined tax program; the siphoning off of excess savings and earnings by selling government bonds to individuals instead of banks; by controlling all loans; by not favoring any one segment of society over another; by priority, licensing and allocation to the greatest needs, and above all, by increasing production.

I quote again:

"Piecemeal price fixing will not halt inflation. It allows the general price level to run wild, while dealing with a few individual prices. * * *

"As inflation occurs the prices that are fixed soon become out of date and must be adjusted upward. Irregular rises in prices destroy the relationships between various costs, requiring even greater adjustments."

So much for the past. I do not wish to appear as a prophet saying "I told you so" but rather as friend and citizen examining with you our past in order to guide our future.

The Price Structure

The price structure is one that has grown through the years by trial and error, with the law of supply and demand, increasing transportation, finding better methods of manufacture and distribution, with each government, community and individual fitting itself into that structure. You cannot suddenly lay violent hands on it and expect it to function in the way that will give everything that is needed, nor cure all hardships and injustices. One apparently insignificant act, here or there, may change the life of a whole community and upset the lives of many far distant, just as the strike of a few will cripple a city or nation overnight by closing some function that may be as necessary as one of the vital organs of the body.

We cannot be complacent as we are being beguiled with more money, with less purchasing power. The gold dust thrown in all our eyes, by political abracadabra, only confuses, with gain to no one except temporary power to the economic magicians. We must mix brains with our brawn if we would keep our world leadership. We must steady ourselves in these emotional sweeps and keep our heads or the ship of democracy will wallow in this sea of confusion, spring a leak and disintegrate.

Whole segments of society have lost their perspective as to the rights of others. Many have lost their capacity for indignation over their own wrongs and the wrongs inflicted upon others. Many could not make up their minds whether we were going to have inflation or deflation. The wonder to me is that things are not even worse than they are.

The Postwar Adjustment Policies Report

Before the report on War and Postwar Adjustment Policies was made in February of 1944, practically everyone predicted between 9,000,000 and 15,000,000 unemployed. That prophecy proved unfounded. This kind of thinking shows how momentary emotion can affect a whole people.

This report recommended certain things of which but one was adopted—contract termination.

Another plan had to do with disposal of surplus property. If this had been worked intelligently and courageously many of the things the public wants and which are available would have been distributed and become useful. Some of the factories which we built could have been put in operation long ago. The surplus problem has been so tied up that it is not yet functioning properly.

Congress has just passed a law which will enable us to sell our ships. This was delayed too long. They should be turned loose on the best terms possible to all nations that can use them for commerce or fishing. They in turn will seek out in every port of the world even small cargoes of materials that can be used, thereby affecting the national and international outlook.

A highlight recommended in the report was to put one man in charge of human demobilization for workers and returning veterans. If it had been promptly done, we would have escaped many of our present difficulties among veterans, workers, and civilians.

There was advanced a plea for opening up credits for Small Business through the Federal Reserve, but nothing definite has been done about that.

The whole world is watching us, amazed at the exhibition of a giant who cannot pull himself together even to take care of his own needs.

The Increasing Money Menace

We reduced taxation nearly $6 billions for the purpose, it was said, of stimulating business which already had orders that it will take years to fill. At the same time that we lessened our income by $6 billions, we asked for new loans. This bond issue was oversubscribed, most of it creating credits that can be turned by the Federal Reserve Bank into printed money. There lies a grave menace—money increase.

We make promises to other nations of loans for purchases generally to be made here. And if not here, then in other places in the world where we compete.

On every side the Federal, state, city, and county governments have rebuilding programs which will increase the demands upon an already limited supply. They can be easily postponed to a later date when they will be needed.

The New Wage-Price Policy

Then, while endeavoring to hold prices, we remove the indirect control over wages by getting rid of the Little Steel Formula (which was but a weak substitute for wage control) and grant the 18½ cents increase for steel. This will be followed by increases all along the line, no matter what anybody thinks to the contrary. Call it a bulge but it is really a break—and a grave one. This was inflationary.

I do not blame labor for wanting to retain their standard of living. For the decrease of $6 billions in taxes and the throwing over of the Little Steel Formula naturally made them feel they should take care of themselves. I would want my take-home pay to remain the same. The corporations and smaller income groups benefited mostly from the $6 billion tax reduction. Private owners of business, large and small, were seriously disadvantaged. And so it is with every group. And all of this must be followed by increases in pay or pension to the white collar brigade, government workers, firemen, policemen, teachers, professional people, veterans and the Army and the Navy.

Squeezing Taxable Profits

And what becomes of all of the people when we expect government to pay out more if taxable profits are squeezed? Who gets any advantage if goods are not produced faster than wages are advanced and money printed? We cannot call this holding the line or just a bulge. To make the take-home worth while, more things at lower prices must be produced. That is up to labor more than management. Unless each man produces more than he receives, increases his output, there will be less for him and all the others. Each one will receive more money but have fewer things.

We might as well admit we have made tragic mistakes. The race between prices and the cost of living is going on here and all over the world. Ask the housewife. She knows better than the economists and statisticians.

Let us now face facts. We must have full production. Without it, we cannot keep any semblance of modern, civilized economy or even government. We risk inflation. We mute the voice with which we speak for peace in the world. With full production, we can escape inflation and have our people re-assume their leadership.

In my appeal for legislation, in my appearance before this Committee in 1941, I said—

"The control of prices is essential for the successful conduct of our national defense, for avoiding social and economic aftermaths of war, for taking the profits out of war, for the maintenance of morale, the stoppage of inflation, and

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A Post-War Economic Policy

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the placing of America in the dominating place at the peace table. As I said before, with such great stakes we cannot afford an ineffective program of price control. Some persons, while admitting that everything I have said is true, have argued that the public is not ready for such drastic measures; that various interests have to be pacified at the expense of others; that the best law that can be had is a stopgap measure with compromises, one which while unable to prevent inflation, will keep prices down somewhat. To them I recommend the words of George Washington to the members of the Constitutional Convention. As you know, the delegates to that Convention originally were supposed merely to patch up the Articles of Confederation. They could have done just that and told themselves we will do more patching later on, and on, and on. Happily, the delegates chose to be guided by Washington's advice:

> 'It is too probable,' he told them, 'that no plan we propose will be adopted. Perhaps another dreadful conflict is to be sustained. If, to please the people, we offer that we ourselves disapprove, how can we afterward defend our work? Let us raise a standard to which the wise and honest can repair. The event is in the hands of God.'"

And so here we are today.

Price Structure Out of Gear

The price structure is out of gear. I never favored subsidies but they have become a part of this tottering price edifice. I would continue those now in effect. I would give no more.

For one year I would extend the present war powers, price fixing, and include wages, with the provision that no raise in prices be made without the approval of OPA, and no increase in wage scales without approval of the Office of Economic Stabilization.

Because of the wage increase, we will be forced to raise prices but it must be with a firm and wise hand, so as to get the necessary production. Remember, we have not the stimulus and unity that war creates. We will have to depend upon the personal initiative and profit incentive, but that does not mean profiteering. If wages are advanced, the farmers will surely come along because their costs are increased and they have a law which gives them parity, and therefore higher prices as the average price levels go up. And then the wages of all civil servants, the white collar brigade —the recipients of fixed incomes —have to be increased. And, as I say, you will have to increase pensions.

There may be wisdom in reinstating the $6 billion tax reduction. Certainly I would continue renegotiations on war contracts. These steps might take care of excess profits.

Government expenditures should be cut to the bone.

The strictest allocation should be made of all money so that no loans will be granted, or undertaken here by private concerns or by the Federal government, states, cities and counties, unless approved by the Treasury which must seek the approval of the Office of War Mobilization which is in charge of production.

Helping Foreign Countries

I am not opposed to helping foreign nations. But until production warrants it, I am opposed to lending them money or assisting them except for direct needs to make purchases when we know they cannot be made here or elsewhere. At this time that would be to increase demand. It would be cruel to hold out hopes that will not be realized. I would keep the goods necessary to prevent inflation and then allocate the balance, as they come to hand, where it would help the most.

We must stop treading this economic primrose path. There is only one way to stop inflation and that is to get production. What must be done later can be better done now. Whatever is necessary now to do to get that production, I would do.

As everyone knows, I have advocated a stricter price control and higher taxes than anyone else. We have made too many makeshifts. We will either have to go back and do it right, or, having accepted the mistakes of the past, increase prices to put everyone on a higher plateau. The only hope we now have is that production will then be so large, inflation will be stopped.

Causes of Rising Prices

Rising prices have been due to two things:

1. Currency inflation.
2. Great demand being made upon a limited supply. The law of supply and demand will take time to work and it is during this period that we must have controls.

As I predicted two years ago, I see at least five or seven years of unending demand. How long that will last will depend upon the wisdom we show.

I approve of the setup whereby Mr. Secretary Anderson has charge of production of agricultural products, with the provision that prices made by the OPA should be subject to his approval.

As all other production is in charge of the Civilian Production Administration under Commodore Small, all prices for that production should meet with his approval.

There should not be any strikes or lockouts for a period of at least one year, by agreement preferably —otherwise by law. Mr. Bowles' new office can carry this out, taking care that no hardships are involved to the workers—or the employers. But they can shut down and live while the workers would starve.

Any dispute between the agencies involved must be solved without delay by the Office of War Mobilization (Mr. Snyder) to which Congress has given the power to do just that. Of course all can appeal to the President.

Black Markets Growing

To those who paid little attention to the OPA and used the black markets during the war, there has been added many good citizens who are just beginning that practice. If a wise course is not pursued, that practice will be extended. Prices and disrespect for law will mount, and quality of goods and respect for law will decrease.

It cannot be said too often: We must have production to save ourselves and the world. But, if a close-fisted policy squeezes every bit of profit out of industry in order that some segment of society may apparently be advantaged, the government being the sole judge of this, we will arrive at an economy with our industries nearly all nationalized without a vote of the people—an economic and social revolution of greater proportions than we now realize—one that American labor will rue as much as others.

Any type of control should be directed first towards food, clothing, civilian services, housing and transportation for everyone. If you will give the American people an opportunity to function, not by fear nor yet by favor, and let every segment of society feel that it is not disfavored to the advantage of another, in a few months you will see an amazing change.

I heard much during the war of an endeavor to protect the little businessman. How can he live under the present schedules? Prices must be set up not for each particular one in the business, but for a whole industry. People will not work without profits.

Faith in American Institutions

To the prophets of evil, I would like to say that I have faith in American institutions and the common sense of the American people. We must close our ears to those who try to turn us to statism by indirection. We are good-natured people who can be pushed around but only so much.

A final word:

Do we know what our resources are?

Do we know what our debts are?

Do we know how we stand and what we have with which to help others as well as ourselves?

Do we know how much the others really need?

Many of our difficulties will be solved when we get going. We cannot get going by adopting political instead of economic and human methods. The human equation is the greatest of all—the desire to function—the desire to profit. But those desires must not run wild—they must be limited to fairness. Let us be realistic and recognize that, at the same time getting away from any unjust opposition to any of the factors composing our economic body.

All parts of society because of modern communications have become so entwined that it can only function well as a whole. Sometimes only one, sometimes two or three missing parts will cause a breakdown of the whole machine, or cause it to slow down. Society cannot permit a few men—labor, or management, or farmers, or professionals, or politicians, or members of any group—to stop it because of differences in ideas or practices between some parts of society. While we are setting up a machinery to stop wars between nations, we have not solved it within our own gates.

A High Court of Commerce

I give you this thought:

There should be a high court of commerce set up to which these disputes can be taken for adjudication in order that we may work out a program on the basis of the principles which made this country great. If this is not done, we shall soon find ourselves in the morass of confusion that will bring us either to fascism or communism; and that Ark of the Covenant of human liberties and dignities, our form of government, will have been lost.

The advance in wages can make true a wish that we all have fathered—that is, if labor and management so will it, more and more wealth can be produced—more things made—so that each can share in more and better things at lower prices. Down that path we can safely go to the benefit of all and the disadvantage of none.

This would result in an economy of abundance, which should guarantee a return to free enterprise in a year.

FIC Banks Place Debs.

A successful offering of an issue of debentures for the Federal Intermediate Credit Banks was made March 21 by Charles R. Dunn, New York, fiscal agent for the banks. The financing consisted of $38,950,000 7/8% consolidated debentures dated April 1, 1946, and due Jan. 2, 1947. The issue was placed at par. Of the proceeds $22,980,000 were used to retire a like amount of debentures maturing April 1, 1946 and $15,970,000 is new money. As of April 1, 1946, the total amount of debentures outstanding will amount to $277,355,000.

Railroad Reorganization— The New Government Policy

(Continued from page 1637)

he did what the ICC should have done several years ago. He made provision in his revised draft for re-examing the present bankruptcies in the light of the fundamental change in the financial condition of bankrupt roads and of the prospects for a high level of earnings. Three weeks of hearings have been completed, and a second revision of the railroad reorganization bill (S. 1253) is to be introduced shortly.

II

The Senate Committee on Interstate Commerce has made rapid progress on the bill, S. 1253, to improve the procedure of reorganizing bankrupt railroads. To be useful and effective, the amended bill must be passed in time to save the roads whose owners are soon to be expropriated. Otherwise, the hearings and the resulting legislation will be largely academic and futile. A dead man needs neither drugs nor doctors. Such remedial legislation is already too late to do justice and to give relief to the owners of the Western Pacific and of the Chicago and North Western, now expropriated.

To supplement such legislative relief, perhaps it would be possible for the Senate Committee to request both the ICC and the courts to suspend at once action on all cases pending before them. But, even if it is possible to defer final action by the courts until Congress can provide legislative relief, prompt action is imperative in Congress.

III

The control of railroads taken out of the courts should be vested not in the bondholders but in the stockholders. This should be accomplished either directly or through their representatives, the board of directors. The bondholders are the beneficiaries and the stockholders are the victims of the present ruthless reorganization procedure. Obviously the beneficiaries do not wish to change the procedure. The holders of all the chips in a game like the existing rules of the game. Of course, the approval of the bondholders is essential in finally effecting a settlement.

IV

The law should cover even the roads on which balloting of the security holders has already taken place. This should be done also in those cases in which the courts have approved the ICC plan, but in which the plan has not yet been put into effect and the case discharged from the court.

V

Excessive interest rates should be reduced. Back interest of railroads now in the courts has accumulated at excessive and antiquated rates from 6½% down. Meanwhile, coupons on Government bonds have declined from 4¼% to 2. The back interest in default should be recalculated on some basis near 3%. On several Reconstruction Finance Corporation loans, accumulated unpaid interest had accrued at 6% but was settled at 4%. Indeed, the report of the Senate Committee on railroad reorganization (S. Res. 192) stated that even 4% is too high and the rate should be 2½%, to allow ½% to cover expenses above the 2% cost of money to the Government.

VI

Railroad reorganization need no longer be so drastic. All property is worth more at current higher levels of commodity prices. Postwar national income should be high. Rates of interest have declined sharply. The ICC repeatedly stated that property value already exceeded capitalization of the railroads. At the present high levels of commodity prices, the cost of replacing the bankrupt railroads is far above the old total capitalization, including stock.

New high peace-time levels of national income are expected after the war. Railroad income is a fixed ratio of national income, about 6%. Railroad efficiency is at a record peak and should continue to rise.

The sharp decline in interest rates favors the debtors. In the worst year of the depressed 1930's, a group of leading bankrupt roads earned the interest charges 0.55 times. Meanwhile interest rates have been cut almost in half. Rates of interest on Government bonds of 4¼% and 4% have been reduced to 2¼% and 2%. Thus, at these lower rates the bankrupt railroads' interest charges in the above worst year would have been covered about 1.10 times.

This fact adds tremendous significance to the attempt of the Senate Committee to revise railroad reorganization procedure. It reflects also on the unwise and unbusinesslike plans worked out by the ICC and approved by the courts, which utterly ignored this basic fact.

The old stocks, preferred and common, can be continued if the assets exceed the capitalization, as the Hobbs Bill provides. However, if the assets are insufficient, then the old stock can be allowed a fraction of new stock plus an option warrant. This warrant would either furnish new cash to retire bonds or the option could be exercised by tendering outstanding bonds of the road, in lieu of cash.

VII

The percentage of fixed interest bonds should be reduced to 40% of the total capitalization, or of the 19A valuation. Railroads become bankrupt because fixed charges are not covered by earnings. Rarely does a maturing debt cause bankruptcy if the earnings cover the interest charges. Extensions or temporary financing were to be had, even before the Chandler and McLaughlin Acts for voluntary reorganization.

Therefore, do not reduce the total principal of obligations. Instead, substitute income bonds for all the fixed-interest bonds above the 40% of the capitalization or of the 19A valuation. Income bonds receive interest only if earned. These bonds might be secured by a lien on the property.

However, make it possible for them to be eliminated in a boom, by making them convertible. The conversion price need not be as high as $100 par. Generally the assets of the roads exceed the capitalizations and additional common stock can be issued up to the limit of the asset value, as under the Hobbs Bill.

Besides, some railroads issue no-par stock, and thus also the conversion price need not be as high as 100. In fact, some bonds have had relatively low conversion prices such as the Great Northern bonds convertible first at 40, then at 75. Let the conversion price be on a scale up for blocks of bonds. For example, let the first fraction of the total issue be convertible at a price of 25 for the stock, the next fraction at 30, the next at 40, and so on up. Otherwise, if the entire bond issue is convertible at one price for the stock, the stock can hardly rise above the conversion price until all the bonds are converted. Besides, the conversion will be slow. Furthermore, a rising scale of prices keeps down the number of shares resulting from conversion.

Institutions, savings banks and insurance companies should prefer this procedure. They now receive new common stock for old bonds. This procedure has several disadvantages. Interest on bonds is deductible from taxable income, thus increasing the margin of safety for bonds. Dividends are not so deductible. State insurance commissioners criticize stockholdings of life insurance companies.

Again, insurance companies have difficulty in recovering the principal amount of the bonds, because when railroad securities are issued after reorganization, stocks give a higher yield than bonds. Or stocks sell lower than bonds in relation to return. The spokesman for the insurance companies stated that the new common stock was worth only 35% of the principal of the old bonds exchanged therefor. If they had instead received a convertible income bond, as suggested here, it would have to sell on over a 10% basis to give them as low a market value as these institutions now have through their common stock holdings. Bonds would not long sell at such a high yield. On a 4% coupon and a 6% return, an income bond would sell at 66 and it could rise above the original $1,000 when the stock rises so that the bond conversion privilege becomes attractive.

VIII

Back interest should be paid, not in cash, but in a new prior preferred stock, convertible into common. This is not a new or revolutionary idea. Mr. Justice Lamar of the U. S. Supreme Court, in an opinion many years ago in the *Northern Pacific Railway Company vs. Boyd*, stated that it is not necessary to pay off the creditor in cash. "His interest can be preserved by issuance of income bonds or preferred stock." This practice prevailed for many years in railroad reorganizations.

The cash should be used to increase earnings and efficiency, to buy better equipment and heavier rails, to build stronger road-beds, and to install signalling systems, etc. The sparsely settled West needs first-class railroad service—fast, cheap, and efficient. Available cash should be put back into the property, not paid out to creditors. A railroad reorganization is not a liquidation but a reconstruction. Therefore the rule of absolute priority of a liquidation should not apply. Let the debtors and creditors compromise on a practical plan to operate the road efficiently.

The war provided a test. The railroads met it. This may not be the last war. Railroads must keep pace with the advance of the national economy. Therefore, in railroad reorganization, hold the cash and pay off accumulated interest with a new non-cumulative preferred stock, or unsecured debentures paying contingent interest. Make these securities convertible.

IX

Excess cash should retire bonds. Excess cash should be used to retire bonds by purchase in the open market, at low prices, exempted from the capital-gains tax. Bonds outstanding accumulate interest. But unpaid interest does not compound and is no burden. Therefore, cash should be used to retire bonds outstanding and thus reduce interest charges.

The roads that barely escaped bankruptcy, like the Baltimore and Ohio, the Missouri, Kansas and Texas and the Illinois Central bought back their bonds at low prices in the open market. Thus they put their road in good financial condition. But the trustees of railroads in the courts showed no such wisdom or prudence. Some allowed interest to accumulate at 6% when the principal could be retired at 1% or 2%. This neglect is another evidence of the defect of the present reorganization procedure.

X

The powers of the Interstate Commerce Commission should be limited. The powers of the ICC are too sweeping and its discretion too broad. The present unhappy, if not deplorable, confiscation of the property of many hundreds of thousands of citizens is a result of such unrestrained powers, the exercise of which the courts have refused to review.

There seems to be no provision for judicial review in the bill S. 1253. Therefore, it should be amended so that the courts be required to make full and critical review of every phase of ICC decisions.

Dissenting opinions within the ICC should be considered by the courts and be accorded due weight when presented by injured parties. Commissioner Carroll Miller in 1939, and repeatedly since, dissented from rulings which wiped out the stockholders' interest and he opposed forecasting earnings as a basis of capitalization, because "we are not omniscient and cannot forecast the future." The courts ignored his dissents but it was the stockholders who paid the penalty for the ICC's indiscretions and the courts' neglect.

The McLaughlin Act, I think, provides for judicial review by a special three-judge court. Should not a similar judicial review be required under this bill for railroad reorganization?

XI

Government machinery must be strengthened. The present railroad reorganization procedure shows the need for improving governmental machinery. The ICC set up reorganization plans in the depression and stuck to them when the depression was gone, like a gunner who shoots at a target that is no longer there, or a manufacturer who insists on producing buggies in an age of automobiles. The ICC was out of touch with rapidly changing economic trends. It was irresponsive to the wishes of the electorate. It refused to adapt itself to changed conditions. It exercised arbitrary power. The courts were equally at fault. This bill, S. 1253, could cure the present unfortunate situation, but it will not remedy the basic difficulty.

What is the long-term remedy? The Committees of Interstate Commerce of the Senate and of the House are very powerful.

(A) They should set up a **Joint Congressional Committee on Transportation** consisting of the chairman of the Senate and House Committees and about nine of the ablest members.

(B) This body should have a staff of experts, economists, accountants, engineers, and legal draftsmen. Their function would be to provide this Joint Committee with facts, comment on ICC policy, and analyses of proposed legislation.

The Senate Committee on Interstate Commerce has great responsibility to the people, but it has no equipment of its own to discharge it. It had to rely on the ICC. Administrators thus directed legislators. Even the ICC should welcome such a corresponding body of experts serving the Congress. The ICC has great power without responsibility to the people. Congress has great responsibility to the people, but lacks its own experts and necessary knowledge.

(C) A Federal Advisory Council on Transportation should be attached to this Joint Committee. It should consist of $1-a-year men, representatives of shippers, consumers, operators, investors and labor. Such a business body could keep Congress in close touch with rapidly changing conditions and with public sentiment. This body should meet periodically and make recommendations to the Joint Committee. It would then be unnecessary for private citizens sporadically to bring to the attention of this Committee grave evils of which the ICC seems utterly unaware. Indeed, the ICC refused to act even when its attention was called to these grave evils. Nay, more, it tried to defend its errors. It was living in a vacuum, unrelated to the realities of life. Perhaps the ICC too should have a National Advisory Council, to keep it in living contact with the world, which it affects.

The Joint Congressional Committee on Transportation should from time to time investigate the differences of opinion inside the ICC, a creature of Congress, so that this Joint Committee can exercise its own judgment on the merits of the two sides. One member of the ICC consistently fought against "guessing" future earnings and against wiping out stockholders in reorganizations. But his voice was not heard by Congress. It was suppressed inside the ICC.

XII

The Joint Committee of Senate and House should visit Great Britain to make a study of its railroads. It should study methods of railroad reorganization there. Stockholders are generally not wiped out. Various types of securities are invented to give the owners a continuing interest, such as option warrants, and **deferred** stocks coming after the common.

The brilliant legislative achievement of consolidating 126 British railroads into four system, and of coordinating railroads, trucks, coastal shipping and airways has effected great economies and lowered costs.

Our consolidations threaten again to be haphazard. Recently, small roads have been consolidating, with resulting considerable increase of efficiency and service. Such sporadic mergers may not fit into a national plan, which Congress should later authorize. Such a national system of consolidation, as Commissioner Carroll Miller has repeatedly stated, would lower costs, reduce rates to shippers, stabilize employment, increase earnings, give value to stocks now threatened with confiscation, and by making the conversion privilege attractive, would reduce railroad debt and thus lessen or even avoid future bankruptcies. Since the consolidation in 1923, not a single British railroad became bankrupt, but 40% of American railroads, not consolidated yet, went into bankruptcy or receivership.

XIII

Relief must come immediately. The recent report of the Senate Committee on railroad reorganization (S. Res. 192), shows keen analysis and constructive statesmanship. Its recommendations should be translated into law, promptly and without delay. Better a quick, if imperfect, law on railroad reorganization, subject to amendment later, to save the owners of the remaining railroads now in the courts, than a more perfect law, too late to prevent confiscation of the remaining equities. **Prompt action is essential.**

General Products Corp. Stock Offered to Public

Offering of 119,000 shares of ($1 par) common stock of General Products Corp. of New Jersey was made March 25 by Hill, Thompson & Co., Inc., and F. L. Rossmann & Co. The stock was priced to the public at $2.50 per share. Proceeds from the sale of the shares initially will be added to the treasury funds of the corporation, which has entered into a contract for the purchase, on April 1, 1946, of a plant site at Bayonne, N. J.

Alfred M. Seaber With Merrill Lynch Pierce Co.

JACKSONVILLE, FLA. — Alfred M. Seaber has become associated with Merrill Lynch, Pierce, Fenner & Beane, 116 West Forsyth Street. Mr. Seaber was formerly in charge of the Miami office of the Ranson-Davidson Company, and in the past of the Miami office of Merrill Lynch, Pierce, Fenner & Beane.

Our Reporter's Report

The next few months, covering the period right through to the summer season, promises to yield underwriters of new securities all the business they can handle provided the investing public and institutional investors do not experience any pronounced change in their ideas in the meantime.

Certainly the rate at which prospective new issues are being filed with the Securities and Exchange Commission, plus discussion of potential new undertakings such as that contemplated by Shell Union Oil Co., indicate that new securities will be forthcoming either by way of refinancing, or for new capital, as long as the market shows a disposition to absorb them.

Despite the further shearing of yields on the latest refunders there has been an apparent absence of any serious "backing-up" of such issues. True a few have been a bit slow in moving out. But underwriters, realizing they were entering into another phase of the prevailing "cheap" money market, were not given to expecting any miracles.

They realized that potential buyers, chiefly institutions in the case of high-grade bonds, probably would put up considerable resistence to any further cut into their revenues. But circumstances being what they are, it was reasoned that time would justify their judgment in venturing to refinance corporate obligations, many of which have only been outstanding for a few years.

So far the evidence has been in the bankers' favor. Major buyers have been hesitant to take on large commitments of the recent new issues in their initial stages, but indications are that they are gradually coming around to recognize the new conditions.

Ten Cents a Thousand

Things certainly have undergone a far-reaching change since the days when corporations sold their bonds direct to selected banking groups by negotiation. And underwriters are really getting down to brass tacks these days when they go after an issue.

It's no longer a matter of figuring what the market will take and then going to the prospective issuer. The banker these days must, in addition, figure what his prospective competitors will be willing to offer in order to get the loan.

What has happened becomes apparent when it is realized that bids which won the awards of two substantial issues this week were only 10 cents a $1,000 bond better than those of the nearest rivals.

Southern Pacific's $25,000,000 of new 15-year bonds were sold as 2¼s at a price of 98.319 with the second group offering to pay 98.309 for the same coupon. Again Hackensack Water Co.'s $15,000,000 first mortgage bonds were awarded on a bid of 104.42 for a 2⅝s coupon. The next nearest bid was 104.41.

Another New Mark

The Hackensack Water Co.'s operation was interesting in another respect since it shaded slightly the cost basis on which the Madison Gas & Electric Co. disposed of an issue of $4,500,000 of first mortgage bonds about a month ago.

The indicated cost basis to the Hackensack company was approximately 2.417%. The Madison financing was done on an indicated cost to the company of about 2.4265%.

At the reoffering price of 105 fixed for the Hackensack 2⅝s the yield to the purchaser would approximate 2.390% which puts it just under the 2.396 yield afforded by the Madison Gas's 2½s on their resale price of 102¼.

Saguenay Power Co.

Another Canadian utility issue was marketed here yesterday when a banking group brought out $23,200,000 of new first mortgage sinking fund bonds of Saguenay Power Co., Ltd.

Price at 103 and accrued interest the bonds are reported to have met a rather receptive market and were said to be moving out with satisfactory speed.

This operation, together with the private sale of $5,400,000 of 2% serial debentures to a group of Canadian banks placed the company in funds to redeem all of its currently outstanding long-term debt.

New Issues Moving

Although Southern Pacific's new 2¼s were not a "red hot" proposition marketwise, being offered at 98¾ to yield about 2.35%, the bonds were reported moving out to investors in a manner which completely satisfied their banking sponsors.

The Hackensack Water Co.'s new 2⅝s made an even more impressive showing, despite their record low yield. Reports indicated that syndicate members were completely sold out and it was the impression around the Street that the balance in dealers' hands was not burdensome.

Investors continue to nibble away at the recent large Union Pacific offering, but dealers report bonds around in good volume in this issue.

House Rejects Cutting Lend-Lease Further

By a vote of 171 to 148 the House, on March 13, declined to meet the demand of Representative John W. Taber (R-N.Y.) that it cut down lend-lease balances an additional $200,000,000, the Associated Press reported from Washington. Drawing special attention to a Government report obtained by the House Appropriations Committee showing that shipments to Russia are still continuing, Mr. Taber declared: "I question whether we should be sending that country anything further under lend-lease." Said the Associated Press:

"The office of foreign liquidation of the State Department, which handled postwar lend-lease goods distribution, gave reporters this explanation when asked about Representative Taber's statement:

"The Russians are obtaining a total of $290,000,000 of goods and services, but on a credit rather than a cash basis. They are receiving these goods and services under an agreement made with the United States weeks ofter wartime lend-lease was ended following the defeat of Japan. The agreement provided that the Russians would receive $240,000,000 worth of goods and $50,000,000 of services such as transportation and docking services.

"Shipments under this agreement began in mid-November, and by the end of January totaled $120,000,000.

"The goods must be paid for in 22 annual installments beginning July 1, 1954. The credit carries an interest rate of 2⅜% beginning July 1, 1947.

Bond & Goodwin Offers Arnold Brilhart Com.

Bond & Goodwin Inc. offered to the public today, March 26, 143,925 shares of common stock (par $1) of Arnold Brilhart, Ltd. at $2 per share. The outgrowth of a business started in 1939 by Arnold Brilhart, a well known reed instrument artist and radio performer, the company was formed in 1943 to manufacture and deal in three principal types of plastics, musical instrument accessories, precision industrial plastics and consumer products. Sales in 1945 amounted to $761,638 and net income before Federal taxes $43,586.

The company proposes to use the proceeds from the sale of the stock for additional plant equipment consisting of injection molding machinery and other corporate purposes. Two plants having a total of 30,000 square feet of floor space are operated in Great Neck, New York. Giving effect to this financing the company's outstanding capitalization will consist of 533,625 shares of common stock.

During the war the company engaged in the fabrication and molding of precision parts for electrical devices, electronics, television and many other instruments and appliances as a subcontractor. Retooling and other changes made in connection with these orders established industrial plastics as one of the major divisions of the company's enterprise.

Income Payments Drop

Income payments to individuals in January totalled $12,936 millions, 3% less than in the same month of last year, the Department of Commerce reported on March 12. The January total was 9% below December income payments of $14,272 millions, but the decrease was due largely to the usual sharp drop in dividend and interest disbursements at the beginning of the year. After allowance for this and other seasonal influences, the Department's index of total income payments declined from 234.1 in December to 231.6 in January (1935-39-100). Income payments in January, after seasonal adjustment, were equivalent to the annual rate of $155.6 billions, as compared with the actual record total of $160.8 billions in calendar year 1945. The Department further reported:

"The January decline in the index of total income payments resulted in part from a sharp reduction of total military pay reflecting continued demobilization of the armed forces. Contraction in factory pay rolls—attributable to strikes—also was an important factor. However, income payments to civilians remained substantially unchanged from December to January, since gains in income paid out by trade and contract construction establishments and a large increase in unemployment benefits approximately offset the drop in total factory pay rolls. The volume (seasonally adjusted) of civilian incomes was virtually as large in January as in July, the last full month of war.

President Urges Senators Remain in Jobs

President Truman's recent action in urging Senator McFarland (D.-Ariz.) to remain in the Senate rather than take a Federal Judgeship in his State brought inquiry at a subsequent news conference as to whether the President considered this a good general policy. To which Mr. Truman replied, according to an Associated Press Washington dispatch of Mar. 14, that he thought Senators with lengthy service were invaluable to their States in the Senate and should remain there rather than take other jobs.

Soviet Withdraws From Council Sabotaging UNO

(Continued from first page)

he used every available forensic weapon, including irrelevancies, repetitions, "evidence" consisting of press statements attributed to Stalin and Iranian Prime Minister Ghavam, including quotations from the Soviet's own news agency, "Tass."

Iran's Complaint

When the Iranian representative, Ambassador Hussein Ala, was permitted to tell his story to the Council this evening, the reasons for Moscow's attempted obstruction were understandable. He reported that he had direct word from his government that Russian troops are still in Iran; with absolutely no assurance that they will get out at all—much less by any specific date. He reported that the Russians were interfering with the functions of his government, and with the people's daily lives—all directly inconsistent with fundamental sovereignty rights. He further categorically denied that an "agreement," as described by Mr. Gromyko, exists otherwise than in the mental processes of the Soviet.

Soviet Action Stimulates Uncertainty

The Soviet withdrawal throws a decisive bombshell of gravity into the international outlook. During recent heated episodes, the optimists have consoled themselves with the fact that, "after all, they are still talking and blowing off steam," or "they are still smilingly sitting next to each other." But now even this is ended.

Of immediate concern is the possible operation of the UNO and the functioning of the Charter without the Soviet. There is the basic question whether any single Power is to have the right to keep the entire organization from functioning. Specifically, under the voting rules the Soviet in its absence automatically exercises its veto power, where such veto power applies. If the Soviet is declared a party to the Iranian dispute, it will not have veto power until the matter reaches the stage of action. But in all other stages its absence automatically exercises the application of the veto which in the Charter's formulation is so zealously fought for.

* * *

Nine months after it was conceived in San Francisco, as the "Board of Directors" for all fifty-one countries of the United Nations Organization, the Security Council entered into continuous session at 2:30 o'clock last Monday afternoon. To enable this eleven-nation world body to embark on its epochal career, after all the previous inhospitable bickerings, Hunter College turned out to be the good, if at first somewhat diffident, host. Inaccessible as these headquarters in the Bronx may be (7 to 10 miles from the delegates' sleeping and working headquarters), and though they are creating growing nostalgia for quiet and beautiful Geneva, they have at least saved the day.

American Conversion Miracle in a Girls' College

The readying of the quarters in time for the scheduled opening perfectly typifies American ability in conversion. It took only three weeks to transform Hunter's main gymnasium into a dignified and beautiful chamber for the august proceedings of the Security Council, and the former mermaids' swimming pool into the seething press headquarters. It took just 17 days to construct an absorbent ceiling for the Assembly Hall, to cover the gym's steel girders with special walls of serrated mahogany plywood, to hang three thousand yards of red-brown drapes, to install 554 very luxurious sliding seats, and to construct 10 radio booths, one television booth, and one movie booth.

Simplicity the Keynote

Despite the ample luxury here, the atmosphere is in strong contrast to the spectacle of the San Francisco Conference, where the general meetings were held in the sumptuous Opera House, and where the participating countries numbered 51 instead of the current 11. In place of the former enormous and bedecked opera house, the present assembly hall resembles a modernistic broadcasting studio. In place of San Francisco's sumptuous dining places, Hunter offers a self-serving cafeteria—for the most important delegate as well as the humblest clerk.

This business-like simplicity extended to the conduct of the "opening exercises." The addresses of welcome, by Messrs. Truman (by proxy), Byrnes and Dewey, established a record for brevity as well as pungency; and the enterprising President of the Borough of the Bronx, Mr. Lyons, fortunately limited his contribution to a letter read by the Chinese Chairman, Dr. Quo.

Mr. Lyons, the one-man Chamber of Commerce, elicited the audience's sole humorous reaction of the day, with the interpreter's reading of the French translation of his repeated plugs for "Le Bronx" for the benefit of the annals of history.

* * *

The Battle of the Bronx

At the opening ceremonies the underlying question was whether (in baseball parlance) they marked the warm-up for the Battle of the Bronx, or a meeting to pave the way to a period of peace for this sorely-tried world. And if a battle, was it to be a good-natured sham affair with cream-puff weapons? The unfortunate answer was not to be long in coming.

Soviet Psychological Dominance

The feeling pervaded here to a remarkable degree—from the opening banging of the gavel on—that all proceedings were taking place in a vacuum excepting when they were tied with the recognizable reactions of the Russian Government. **If ever an international meeting has been one-Power conscious, it is this one!** Even at the opening proceedings the unanimous reaction to the ringing speeches of Messrs. Byrnes and Dewey was that their "meat" was entirely contained in thinly-veiled nuances that referred to the Soviet. In fact, press and audience kept automatically watching for the discernible reactions of Mr. Gromyko, her delegate, who was dramatically (and coincidentally) seated at the Council table's extreme **left.**

At Least the Meeting Opens on Schedule

Dr. Quo Tai-Chi

The start of the proceedings, by Dr. Quo, China's current President of the Council, on schedule, vindicated the good judgment of President Truman in having refused the Soviet's request for a two-week postponement. If the President had not taken this firm stand, the UNO would have died before it had even a chance of getting really started. **To accede to Russia's demand (irrespective of her real motive) for further stalling on the Iranian question, would have notified the entire world that justice for Iran was not even to be considered; would have represented appeasement number 1: would have sanctioned repudiation of the Anglo-Russian treaty and the Declaration of Teheran; and would have then and there handed over all discretion regarding treaty obligations to Moscow.**

* * *

Gromyko Took Over

At the second session, marking the opening of the Council's real business, scarcely a moment was lost in the Soviet's taking-over literally as well as psychologically. With the introduction of the Iranian question, Mr. Gromyko in his opening blast took the floor at 11:10 and held it until 11:59. It took him just 12 minutes of talking to get to the charge that those members who supported Iran's petition for a hearing, were guilty of "aggravating the political atmosphere of the world . . . and engaging in propaganda destined to foment a new war by sowing distrust and anxiety among the peoples."

Andrei Gromyko

In his tireless pleas to remove the Iran question from the agenda, the Russian's underlying and ever-recurring theme was that his country and Iran have come to an agreement, and that hence there is no occasion for Iran's complaint, or the Council's interest. When he was finally outvoted on the **elimination** question, and changed to agitation for **postponement** to April 10, he inconsistently altered this theme to hold that the "negotiations for agreement" were only well-started and would take further time to complete, and get information on. (For verification, he cited Associated Press dispatches for the benefit of this judicial body).

Mr. Byrnes Argues the Case

Secretary Byrnes has come to these meetings "as special counsel" (with permanent representative Stettinius seated beside him) personally to argue the Iran case; and he is putting his heart and soul into the cause. To many it seemed that his answers to the Soviet representations showed them up as the world's record in international "double-talk." If there has been an agreement reached since the filing of Iran's complaint, said Mr. Byrnes, certainly it should at least be verified by the two alleged participants. All he asked was that the Iranian Government, whose representative was in in the hall, be given the chance to state whether there is such an agreement.

It seems to this observer that the following excerpt from his reply to Mr. Gromyko clearly and correctly went to the nub of the entire controversy:

"Today the representative of the Soviet Government states that there has been an agreement. If that information is correct, then the Soviet Government should have presented to the Council for its consideration a joint statement from the Iranian Government and the Soviet Government stating that an agreement had been arrived at and asking that there be no further consideration of that question. But that is not the case. The Iranian Government has not withdrawn its letter.

"Though we have tried to ascertain the facts, we have not ascertained from the Iranian Government that there has been an agreement. Therefore, when a member of the United Nations advises the Council that a situation exists which threatens the peace and security of the world, we cannot deny to that nation the opportunity to be heard, to say whether or not there has been an agreement, to say whether or not they wish to withdraw their complaint.

"If that is not correct, then all a government represented on the Council would have to do when a complaint was made against it would be to advise the Council that there has been an agreement and, on the strength of that, ask that the complaining government be denied the opportunity to have a hearing."

Support From Egypt

And the following statement by the representative of Egypt, Mahmoud Hassan Pasha seemed to analyze the matter with extreme clarity:

"Mr. President, I think I would like to say just one word. Up till now we have heard one side of the story and a third party is getting into the matter. I think before we can form a real opinion we should hear the other side of the story and this other side of the story can only come through the delegate of Iran. The question, to my mind, should be divided into two sections. One is the question of knowing if this case should be brought to the Council. To my mind, it should. The other question is, after hearing the explanation of the second party, should the Council retain this question or not. It is only on the explanations of the second party which is a party in the debate that we can make up our minds as to whether this question should be retained by the Council or not."

Mahmoud Hassan

British Subtlety

Sir Alex. Cadogan

Sir Alexander Cadogan in more subtle, and typically British terms, conveyed skepticism about the actual existence of any such agreement on a two-sided basis; as well as criticism of the Soviet's refusal to give any direct answer to the British request for information which has been long since made under the Treaty of January 1942.

In contrast to Cadogan's diplomatic suavity was the directness of the Australian Delegate Hodgson, who, in typical Evatt form, practically passed the lie to the Soviet concerning its claim of an agreement with Iran.

The Soviet's Diplomatic Tactics

Comparisons with San Francisco come to mind. Primarily, the controversies are more dangerous now; because the formulation of a charter last Spring was worked out in an academic spirit, whereas the present operations thereunder are "substantive" and entail concrete decisions, action, and actual performance.

At San Francisco, London, and now in New York, the Russian representative is governed by home office instructions more than is any other delegate. **Impression of the underlying Soviet technique is that their foreign relations are strictly divided into two separate compartments: one being embodied in "public relations," the other in action—with frequent complete inconsistency between talk and performance.**

This dichotomy between words and performance took little time to come to its logical crisis- conclusion in the early stages of the present Iran discussion; when Stalin's eleventh-hour UNO-appeasing pronouncement to the press, and the Moscow-radio support of the United Nations and the equality of nations, ran headlong into Mr. Gromyko's boycotting of the Conference when he was over-ruled. **In other words, Moscow will play ball as long as the established rules of the game accord with, or are changed to accord with, its own individual desires.**

Gromyko Versus Molotov

The personalities of Foreign Commissar Molotov, who handled most of his country's negotiations at San Francisco, and of M. Gromyko are almost as different as if they were not countrymen. Whereas M. Molotov was aggressive and truculent, and gave impressions of great cynicism; Gromyko argues like an extremely brilliant lawyer—albeit with a very bad case—with a manner of great sincerity. Although one may feel that his country's case in the Iran proceedings are absurd, one admires this 37-year older personally for the able and energetic job that he performed against the big odds of common sense.

Molotov at San Francisco gave the impression of playing the role of "throwing his weight around," of intentionally acting like a bull in a China shop, and ending self-started controversies with gestures of great "concessions" to an appeasing world. Gromyko, at this early stage, appears to have been sent in by the higher-ups at best to "keep 'em talking," and at worst to take extreme steps like withdrawal on instructions from home. Pre-Conference realization of this prompted Mr. Byrnes' decision to argue the Iran case personally, to stop at the outset the probabilities of a pervasive appeasing atmosphere.

* * *

The attitude of both men toward the language question is alike. At San Francisco Molotov categorically denied knowledge of English, yet when caught off guard it was revealed that this must have resulted from "great modesty." Similarly, Gromyko here spoke in Russian, but when the interpreter into English made the slightest change in one of his intended nuances, he jumped in with an interrupting correction.

Gromyko's Bad Case

Unfortunately for Mr. Gramyko, the Soviet's fundamental stand in trying to boycott Iranian discussion was so weak, that if forced him into legalistic quibbling, absurd rationalization, and childish complaints. He put himself in the position of a schoolboy who has hit one of his mates; and when the latter complains to the teacher, he insists that they are pals but that his mate shall not be asked whether that is O. K. with him.

Or the absurd Moscow-Gromyko position can be summarized as follows: they have announced through the press and other informal channels, and through Mr. Gromyko's personal word, that some "understanding" with Iran has been reached; but its details must remain completely unknown to the Iranian Government as well as to the Security Council; the unilateral word and wishes of Russia thereon must be accepted; and any doubts or inquiry by the Council, are resented as a slur on Moscow's veracity. Do those, including Mr. Wallace, who contend that Moscow is entitled to keep grabbing for "security," conceivably believe in the UNO as a real body?

* * *

Mr. Byrnes Versus the Stall

The Soviet's delaying tactics, and her agitation for a two-week postponement, were most succinctly and memorably answered by Secretary Byrnes as follows:

"This is a rather remarkable proceeding. The Iranian Government through its representative brings to the attention of the Council that a situation exists which threatens the international peace and security. When the Council meets to consider it, the representative of the Iranian Government, as most of us know, is in this hall too. He can hear the representative of the Soviet Government speak for the Iranian Government. He can hear The Associated Press quoted. He can hear everybody speak for a government, but he can't speak for his own Government.

"The small nations of the world will watch with much interest what we do here. A great power is vested in us. We must use it wisely. We cannot say that this Council which under the theory of the Charter was to have its doors open to a nation that believed international peace was threatened can come to the Council and can never get an opportunity to present its case when its interests are vitally affected, as every member of the Council knows the interests of the Iranian Government are vitally affected by this motion to postpone.

"I visualize a situation when international peace is threatened by our armed force as in this case and the Council says, 'Your representative can attend, but he cannot present his case.' We wired and have also written to the Government and in the meantime what happened? No one of us can tell. We cannot proceed to vote on a question of postponing upon a matter of this kind until we give the representative of the complaining government an opportunity to be heard. . . .

"Every non-member of this Council will be interested to know whether it is quite so difficult ever to gets its case presented to the Security Council. We can't do that. We must give them a chance to be heard. **After we have heard them, after we have heard the representative of the Iranian Government speaking for his Government, if his statement does not appeal to us, then we can postpone. But to postpone without giving them a chance to be heard would be a violation of the spirit of the Charter."**

* * *

Intensification of the Veto Issue

One of the very topmost issues still before the Council is whether it is going to follow the Russian demand on voting procedure, which would completely paralyze it as a functioning body, and make it the tool of the Big Powers in tactics of aggression. The Soviet's demand for further extension of the already-wide veto power by the Big Five, would have it encompass practically all proceedings that can come before the Council. The present veto rules are surely bad enough in preventing the UNO from taking any enforcement action against any of the Big Five, but the Russian demand is to permit even the barring of discussion of a dispute in which one of the countries with vetoing-power is involved. How this can be conceived of as conforming to Generalissimo Stalin's vaunted championing of "equality among states" is indeed most difficult to comprehend!

A rough resume of the existing veto rules follows: (1) The veto cannot be used in the initial discussion stage of a dispute. (2) The next stage—that embodying discussion—can be reached only by an affirmative vote of seven, including the Big Five. An exception is made in case one of the Big Five is an actual party to the dispute in which case it can neither vote nor exercise the veto. (3) The ultimate stage is that of action against an aggressor; which must be approved by seven members, including each of the Big Five, whether they are parties to the dispute or not.

* * *

The Rules and Operations of the Security Council

A detailed summary of the make-up and working of the Security Council follows:

The Security Council is one of the six principal organs of the United Nations. It consists of eleven member nations, five of which have permanent seats, while the remaining six non-permanent members are elected for a two-year term.

The five permanent members are: China, France, the Union of Soviet Socialist Republics, the United Kingdom and the United States.

At the first election of non-permanent members, held in London last January, Egypt, Mexico, and the Netherlands, were elected for one year; Australia, Brazil, and Poland were elected for two years.

In the Security Council each of the eleven Members has one vote. All questions are decided by a majority vote of seven members. In votes on question of procedure, a majority of any seven Members suffices. On all other matters the majority of seven must include the five permanent Members, with the exception that in the case case of questions raised under Chapter VI of the Charter—Pacific Settlement of Disputes—parties to a dispute abstain from voting.

The Presidency of the Council rotates among the Members in the English alphabetical order of the names of the member nations. The term is for one calendar month. Thus, the representative of Australia, Mr. Norman Makin, presided over the Council meetings in London which opened on Jan. 17. The representative of Brazil was next in order and for the meetings beginning on March 25 at Hunter College in the Bronx, the representative of China took the chair.

The Charter of the United Nations adopted at San Francisco last year lays on the Security Council the primary responsibility for the maintenance of international peace and security. To enable the Council to carry out this task, very wide powers have been conferred on it and all Members of the United Nations are pledged to carry out the decisions of the Security Council, in accordance with the present Charter.

Parties to a dispute must refer that dispute to the Security Council if they cannot reach a settlement by peaceful means of their own choice. The Council is empowered to recommend terms of settlement.

The Council may investigate any dispute, or any situation which might lead to international friction or give rise to a dispute, in order to determine whether the continuance of the dispute or situation is likely to endanger the maintenance of international peace and security.

Any Member of the United Nations may bring a dispute or situation likely to lead to international friction to the attention of the Council.

Against a State which disturbs the peace, the Council may take economic or military measures.

The Council functions continuously, its member nations assigning permanent representatives for the purpose at the headquarters of the United Nations.

On all military questions, the Council is assisted by a Military Staff Committee which is composed of the Chiefs of Staff of the five permanent member nations of the Council, or their representatives.

The Military Staff Committee is responsible, under the Security Council, for the strategic direction of armed forces placed at the disposal of the Council by the Members of the United Nations. The first meeting of the Military Staff was held in London on Feb. 4, 1946.

The Charter stipulates that, while the admission of new Members to the United Nations shall be by decision of the General Assembly, it must be on the recommendation of the

(Continued on page 1678)

Tomorrow's Markets Walter Whyte Says—

(Continued from page 1636)

they may talk about the rails, concentrate their purchases in the industrials. So the rails seldom show mobility comparative to the industrials. But lack of mobility doesn't remove them from the prognosticating class. On the contrary, because they are not loaded with public buying, their action may well be more significant, reflecting the opinion of better informed buying.

* * *

On the down-side the same thing is true. And it is in the rail action that certain unfavorable signs crop up. On a day to day interpretation the rails should stay above the 63 figure. When it is realized that the current price is about 65, it will be seen that the leeway is small. This doesn't mean that if the rails break 63 everything is up with the market. The industrials will still have to confirm it. But the burden of proof will then have to be on the side of the bulls. It is interesting to note that it was the rails which broke through their previous lows first. The industrials followed, but it was a matter of hours. Today it is still the rails which refuse to show any enthusiasm. They go up with the older averages but show no aggressive tendencies of their own.

* * *

All this means the outlook is still far from clear. It doesn't, however, mean that now is the time to sell everything. Caution is, of course, necessary. But show me a time when caution can be thrown to the winds and I'll show you a millenium.

* * *

Meanwhile you are still long of a list of stocks. Some of them are nicely in the black, some are about even, and some are a little in the red. If you hadn't sold half your position on the first burst up from the lows, I wouldn't consider the position comfortable. But having done so, there is some comfort that even if they turn around and go down from here your loss will be limited.

* * *

You now hold the following half positions: Air Reduction bought at 52, now about 53¾; American Car & Foundry at 60, now about 64; American Locomotive at 36½, current price the same as purchase figure; American Steel Founders at 42, present level about the same; Bethlehem Steel at 99, now about 105; Chrysler at 120, now about 129, Electric Auto-Lite about 71, now about 69; Superheater at 30, where it is at this writing; U. S. Steel at

(Continued on page 1678)

Norris & Kenly to Admit Hazlehurst as Partner

CHICAGO, ILL.—Andrew Hazlehurst, member of the New York Stock Exchange, will be admitted to partnership in Norris & Kenly, 209 South La Salle Street. Mr. Hazlehurst, who has been active as an individual floor broker on the Exchange, for many years, will make his headquarters in New York City.

Effective March 31, Perry H. Kenly, member of the New York Exchange, and E. Arthur Doern will retire from partnership in the firm.

With Herrick, Waddell

(Special to The Financial Chronicle)

KANSAS CITY, MO.—**Maurice A. Green** has become connected with **Herrick, Waddell & Company, Inc.,** 1012 Baltimore Avenue, after serving in the U. S. Army.

Joins Harker & Co.

(Special to The Financial Chronicle)

LOS ANGELES, CALIF.—**Darrell A. Dolan** has become associated with **Harker & Co.,** 210 West Seventh Street. In the past he was with William R. Staats Company.

Tomorrow's Markets Walter Whyte Says—

(Continued from page 1677)

82, now about 85, and U. S. Rubber at 65½, now about 69.

* * *

There is little point in recommending any additions or deletions from this list with the market between hay and grass. Holding on to present stocks and waiting for proper signals seems about the thing to do.

* * *

So far as news is concerned you can expect plenty of it from one source or another. With the UNO in session the international drumbeat will be quickened. Various newspapers will give various interpretations of what it all means. News commentators will do likewise. After reading and hearing everything you'll be just as confused as I am. My advice is to keep to the market and let the news alone. At least using the news as a barometer for market action is now advised.

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.]

Soviet Withdraws From Council Sabotaging UNO

(Continued on page 1677)

Security Council. Applications for membership, therefore, must be considered first by the Security Council.

Between Jan. 17 and Feb. 16, when the Council adjourned, twenty-three meetings were held in London.

Two items have been carried over from the London meetings:

(1) The report of the Committee of Experts—on which all members are represented—on the rules of procedure; (The Committee of Experts will be meeting in New York, beginning shortly.)

(2) The application from Albania, which was transmitted by the Yugoslav Government, for membership of the United Nations.

Truman Pledges Support of UNO

President Truman

President Truman's address of welcome, delivered by James F. Byrnes, Secretary of State, is as follows:

"On behalf of the people of the United States I welcome the members of the Security Council and the Secretary-General of the United Nations and their staffs to our country.

"We are greatly honored that the United Nations has chosen a site in our country for its home. We will do our best to make you feel at home.

"But there can be no home anywhere for the United Nations unless the United Nations remain united and continue to work together, as they have fought together, for peace and for freedom.

"The people of the United States not only wish you success, but they pledge to you their wholehearted cooperation to give to the United Nations the strength and the will to maintain peace and freedom in this interdependent world."

* * *

Security Council Must Maintain Peace: Byrnes

Address of Welcome of Hon. James F. Byrnes, Secretary of State, to the Security Council, March 25, 1946, follows:

James F. Byrnes

"It is less than 160 years ago that our 13 sovereign States entered into a union for their common defense and to promote the general welfare and to secure the blessings of liberty for themselves and their posterity. That was then an untried experiment and many doubted whether such a union of free States could long endure. It is fitting to recall that that union also chose as its temporary abode the City of New York.

"Although it was later to go through dark days of trial, that union did survive. It grew in strength and has played its part in preserving the blessings of liberty for all mankind. Let us hope that the new and broader union of states which has also chosen New York City as its temporary abode will likewise grow in strength and survive every crisis.

"It is, I am sure, the firm resolve of the American people to uphold the Charter. I am sure this is the equally firm resolve of all the peoples of the United Nations who have joined together to preserve the peace under law.

"The Charter does not sanctify ancient privilege. It does not attempt to outlaw change in an ever-changing world. It does, however, obligate all the states, large and small alike, to refrain from the use of force or threat of force, except in the defense of law.

"Nations, like individuals, should do their best to adjust their disputes without resort to litigation. But no nation has the right to take the law into its own hands. If disputes cannot be settled by friendly negotiations, they must be brought before the Security Council.

"That is why the Security Council must at all times be prepared to act promptly. That is why the Security Council must be prepared to function continuously. If the United Nations is to endure there must be no excuse or need for any nation to take the law into its own hands.

"Upon the Security Council rests the gravest responsibility for the maintenance of peace and security. It must of necessity deal with problems about which nations in the past have been prepared to fight.

"Upon all the members of the United Nations rests the duty to cooperate with the Council to enable it to meet its responsibility. They must be willing freely and frankly to discuss their grievances before the Council.

"Questions affecting the peace of the world must not be treated as questions of honor which cannot be discussed. Questions of honor between individuals are no longer left to the ordeal of the duel. Questions of honor between nations cannot be left to the ordeal of battle.

"We must live by the Charter. That is the road to peace. And the road to peace is the road the peoples of the world want to travel.

"We are here to carry out their mandate. Gentlemen of the Council, we must not let them down."

Dewey Cites Council's Responsibilities

Text of Governor Dewey's address of welcome to the Security Council's opening session March 25, follows:

Thomas E. Dewey

"It is a privilege to greet you on behalf of the State of New York and to welcome the United Nations to its new headquarters in our State. Each of you and every nation represented here may rest assured that the people of our State and of our nation are genuinely happy to have you here. We will follow your work with the utmost of good will, with high hopes and prayers that your labors start us on the road to permanent peace.

"You meet during much disillusionment and much fear. There press upon you many problems and throughout the world hundreds of millions of people await with anxiety your action. Many had believed that the defeat of Germany and Japan would automatically start a new era of harmony and peaceful cooperation in the world. They are bewildered at the stresses and strains which have appeared. That was inevitable. There is no reason why, because the inevitable has occurred, men should lose hope.

"A world-wide conflict of such fundamental nature as the war now ended does not subside the instant the end of fighting is proclaimed. On the contrary, the end of the fighting releases many selfish plans and motives which had been bottled up by the necessities of common peril. With the end of peril, the victors are wont to go their separate ways to try to pluck out of the confusion some particular advantage. This usually happens when a military coalition has won its victory. It happened after the last war. It is happening now. **It is precisely the situation which was foreseen and which the United Nations Organization was designed to meet.**

"While the war was still unwon and the United Nations were only a military coalition, they took counsel from these lessons of the past. They pledged themselves, beginning at Dumbarton Oaks and then at San Francisco to become a coalition for peace. That pledge had then and now has the support of both great political parties in the United States. The new United Nations now exists. You are its strong right arm. There is a duty to the troubled peoples all over the world to settle the differences which were bound to arise—to settle them in a spirit of fairness and justice to all—to the weak as well as to the strong. That opportunity, which is now yours, has been bought at the price of much blood and anguish. Upon it center the hopes and fears of all mankind. Those fears must be dissipated and those hopes justified.

"These high objectives will be achieved if the processes of this Security Council are used for their intended purpose. There will always be temptation to misuse them. The processes of this Security Council can, of course, be made a sounding-board for propaganda for stirring up unrest and confusion in the world. They can be misused in a spirit of maneuver with the hope that by clever tactics one or another nation can be embarrassed and put in a false light. But any nation that sits on the Security Council or comes before it in such a spirit commits a crime against humanity.

"There can be only one spirit admissible within this gathering, that of genuine conciliation. It is that spirit which led the peoples of the United Nations, by the Charter, to pledge themselves 'to practice tolerance and live together in peace with one another as good neighbors.' All who abide by the spirit of the covenant shall be judged good by the conscience of a world which cries for peace.

"The people of the world are not experts in international law. They do not know the technicalities of the Charter. But the ordinary people everywhere will be sensitive to the spirit the nations bring to these proceedings. Your public deliberations make that possible, and that alone is a mighty contribution by this great new venture in the cause of peace. All the world will know what you do and the spirit in which it is done. That simple fact goes far to assure that the results of your labors will be responsive to the conscience of mankind.

"Success may not immediately crown your every effort. But failure would be irretrievable and unforgivable. With every success, mutual confidence will grow and finally flourish. Every step of progress for freedom and peace will make possible another step. And with each step the confidence of the people will grow firmer.

"Surely there is no people anywhere which seeks anything but peace. Surely there is no legitimate claim which cannot be achieved by peaceful means. You, here, are the means. With courage and firmness for the right, and with justice for all there can, indeed, be lasting peace. With Divine guidance and an abiding sense of responsibility for the peace of the world, you shall surely succeed."

Public Utility Securities

(Continued from page 1636)

sidiaries are sold or distributed, as seems likely) net income for 1945 was $1,215,106. Assuming that the new bonds are 3s (with interest coverage of about six times before taxes and four times after taxes) interest charges would be only $675,000 compared with the present interest figure of $1,753,404. The heavy amortization item of $168,058 might also be wiped out on the new basis. Assuming that new fixed charges are in the neighborhood of $700,000, this would mean a saving of about $1,230,000, which would be reduced by taxes to $760,000. This added to the above net income figure would produce $1,975,000 earnings.

It is not entirely clear whether any excess profits taxes are being paid on the present basis, but assuming that they are not, there would be a tax saving (due to the new law) of only about $55,000. On these assumptions earnings would amount to about 88¢ a share on the new common stock, and dividends might be in the neighborhood of 60-70¢. On this basis the new common might be offered at around $12-14 a share (the minimum acceptable bidding price is 10, and if only 11 is bid the issue may be delayed to July 1, 1947).

Calendar of New Security Flotations

NEW FILINGS

List of issues whose registration statements were filed less than 20 days ago, grouped according to dates on which registration statements will in normal course become effective, unless accelerated at the discretion of the SEC.

Thursday, March 28

Indianapolis Power & Light Co.

on March 9 filed a registration statement for 120,000 shares of 4% cumulative preferred stock (par $100). For details see issue of March 14. **Offering**—Company is offering to holders of 140,591 shares of 5¼% cumulative preferred stock the opportunity to exchange their shares for the 120,000 shares of 4% preferred, and in the event of over-subscription the 120,000 shares of new preferred will be allocated on a pro rata basis, the exchange carrying a cash adjustment. Any unexchanged balance of new preferred will be sold to underwriters and offered to the public. **Underwriters**—Lehman Brothers, Goldman, Sachs & Co. and The First Boston Corporation.

Saturday, March 30

American Mail Line Ltd.

has filed a registration statement for 49,602 shares of common stock (no par). For details see issue of March 21. **Offering**—Company is offering to common stockholders the right to subscribe for an aggregate of 49,602 shares of additional common stock at $20.50 per share on basis of 48/100 of a share for each share of common held. Company and principal stockholder, R. J. Reynolds of Miami Beach, Fla., desire to secure wider distribution of the common stock, and toward that end the underwriters have entered into an agreement with Mr. Reynolds whereby, as Mr. Reynolds' agent, they will offer to persons designated by him all shares of unsubscribed stock purchased by them from the company plus, as Mr. Reynolds' agent, up to 12,000 shares of additional common which Mr. Reynolds agrees to acquire through exercise of his subscription rights. The price to public is $20.60 per share. **Underwriters**—Blyth & Co., Inc.

Commonwealth Investment Co.

on March 11 filed a registration statement for 100,000 shares of capital stock ($1 par). For details see issue of March 14. **Offering**—Shares are to be offered at public offering price in effect at the time of sale. The offering price fluctuates from day to day in accordance with the changes in the net asset value. **Underwriters**—North American Securities Co., San Francisco, Calif.

Lion Oil Co.

on March 11 filed a registration statement for 150,000 shares of common stock (no par). For details see issue of March 14. **Offering**—Price to public will be filed by amendment. **Underwriters**—Underwriting group is headed by Blyth & Co., Inc.

Minnesota Mining & Manufacturing Co.

on March 11 filed a registration statement for an indeterminate number of common shares (no par). The shares are issued and are being sold by certain stockholders. For details see issue of March 14. **Offering**—Price to public will be filed by amendment. **Underwriters**—Goldman, Sachs & Co. and Piper, Jaffray & Hopwood.

Sunday, March 31

Alexander Smith & Sons Carpet Co.

on March 12 filed a registration statement for 50,000 shares of cumulative preferred stock (par $100) and 156,312½ shares of common stock (par $20). Dividend rate on preferred will be filed by amendment. For details see issue of March 14. **Offering**—The offering prices to the public will be filed by amendment. **Underwriters**—Morgan Stanley & Co., Dominick & Dominick, Harriman Ripley & Co., Inc., Goldman, Sachs & Co., Kidder, Peabody & Co., Lehman Brothers and Smith, Barney & Co.

Scott Paper Co.

on March 12 filed a registration statement for 65,000 shares of cumulative preferred stock (no par) and 67,065 shares of common stock (no par). Dividend rate on preferred will be filed by amendment. For details see issue of March 21. **Offering**—Company is offering to holders of common stock of record April 1 the right to subscribe to 67,065 common shares on basis of one additional share for each 12 shares held at a price to be filed by amendment. Unsubscribed common shares will be offered to public by underwriters at a price to be filed by amendment. **Underwriters**—Underwriting group is headed by Drexel & Co., Smith, Barney & Co., and Merrill Lynch, Pierce, Fenner & Beane.

Verity Porcupine Gold Mines, Ltd.

on March 12 filed a registration statement for 250,000 shares of common stock. For details see issue of March 14. **Offering**—Price to public is 50 cents per share. **Underwriters**—Mark Daniels & Co., 371 Bay Street, Toronto, Canada, is named underwriter.

Monday, April 1

American Air Filter Co., Inc.

on March 13 filed a registration statement for 101,086 shares of common stock (par $1). Shares are being sold by certain stockholders. For details see issue of March 21. **Offering**—Price to the public is $13.75 per share. **Underwriters**—Underwriters include Almstedt Bros., Equitable Securities Corp., Bankers Bond Co., W. E. Hutton & Co., and Stein Bros. & Boyce.

Reliance Manufacturing Co.

on March 13 filed a registration statement for 30,000 shares of cumulative convertible preferred stock (par $100) and 110,000 shares of common (par $5). The dividend rate on preferred stock will be filed by amendment. Preferred stock is being sold by company and common stock by certain stockholders. For details see issue of March 21. **Offering**—Prices to public will be filed by amendment. **Underwriters**—Union Securities Corp. heads the underwriting group.

Tuesday, April 2

Aro Equipment Corp.

on March 14 filed a registration statement for 30,000 shares of cumulative preferred stock, 4½% series (par $50) and 20,000 shares of common (par $2.50). For details see issue of March 21. **Offering**—The prices to the public will be filed by amendment. **Underwriters**—Central Republic Co., Inc., and Reynolds & Co.

Buffalo Forge Co.

on March 14 filed a registration statement for 60,000 shares of common stock (par $1). The shares are being sold by two stockholders. For details see issue of March 21. **Offering**—Price to the public will be filed by amendment. **Underwriters**—Hornblower & Weeks head the underwriting group.

Colorado Fuel & Iron Corp.

on March 14 filed a registration statement for 275,000 shares of common stock (no par). Shares are issued and are being sold by certain stockholders. For details see issue of March 21. **Offering**—Price to public according to the prospectus is "At the market"—on the New York Stock Exchange or other exchanges on which the stock is listed. **Underwriters**—There is no underwriting agreement. Stock will be sold from time to time at the prices then current on the New York Stock Exchange or other stock exchanges on which the stock is listed.

Peninsula Telephone Co.

on March 14 filed a registration statement for 80,000 shares of $1 cumulative preferred stock (par $25) and 26,799 shares of common stock (no par). For details see issue of March 21. **Offering**—Holders of outstanding 100,000 shares of $1.40 cumulative preferred class A (par $25) of record April 3 are offered the privilege to exchange 80% of their holdings for the $1 cumulative preferred stock on a share for share basis, plus a payment by the exchanging stockholder of an amount per share to be filed by amendment. The exchange privilege will commence April 5 and will expire April 15. Tolders of common stock will be given the right to subscribe to additional common shares on basis of one additional share for each five shares of common held of record April 3, 1946, at price to be filed by amendment. **Underwriters**—Morgan Stanley & Co., Coggeshall & Hicks, G. H. Walker & Co., White, Weld & Co.

Publicker Industries, Inc.

on March 14 filed a registration statement for 400,000 shares of common stock (par $5). The shares are being sold by certain stockholders. For details see issue of March 21. **Offering**—The price to the public will be filed by amendment. **Underwriters**—Group is headed by Merrill Lynch, Pierce, Fenner & Beane.

Wednesday, April 3

Benguet Consolidated Mining Co.

on March 15 filed a registration statement for 702,302 shares of capital stock value (par 1 peso, equivalent in U. S. currency to 50 cents per share). The shares are part of a total of 852,302 shares purchased by Allen & Co., from five stockholders. Of the 852,302 shares, 150,000 were sold privately at the cost price to Allen & Co. Purchase price to Allen was $2.10 per share. **Offering**—The offering price will be supplied by amendment. **Underwriters**—Allen & Co. is named principal underwriter.

Monsanto Chemical Company

on March 15 filed a registration statement for 316,967 shares of cumulative preference stock, series A (no par) convertible into common before June 1, 1956. Dividend rate will be filed by amendment. For details see issue of March 21. **Offering**—The 316,967 shares of new preference stock are being offered to holders of common stock on the basis of one share of preference for each four shares of common held of record April 8. Rights will expire 3 p.m., April 24, 1946. Price to be filed by amendment. **Underwriters**—Smith, Barney & Co. heads the underwriting group.

Samson United Corporation

on March 15 filed a registration statement for 125,000 shares of cumulative convertible preferred stock (par $8) and 166,666 shares of common stock (par $1). Dividend rate on preferred will be filed by amendment. The 166,666 shares of common which constitute 51.4% of the outstanding common are being sold by Clark-Babbitt Industries, Inc. For details see issue of March 21. **Offering**—Prices of preferred and common to public will be filed by amendment. **Underwriters**—Burr & Co., Inc., heads the underwriting group.

Saturday, April 6

Central Maine Power Co.

on March 18 filed a registration statement for 220,000 shares of preferred stock ($100 par). Dividend rate will be filed by amendment. For details see issue of March 21. **Offering**—Company will offer to holders of 7% preferred, $6 preferred and 5% $50 preferred stock the right to exchange such stock on the basis of one share of new preferred for each $100 par value of old preferred plus a cash adjustment. All outstanding shares of old preferred not exchanged will be called for redemption on July 1, 1946. The balance of new preferred stock will be sold to underwriters, to be selected by competitive bidding, for resale to the public. Offering price to the public will be filed by amendment. **Underwriters**—Names of underwriters will be filed by amendment.

Compania Litgrofica De La Habana S. A.
(Havana Lithographing Co.)

on March 18 filed a registration statement for 19,419 shares of 6% cumulative convertible preferred stock (par $25) and 197,000 shares of common (par 10c). All of the 19,419 shares of preferred and 162,000 shares of the 197,000 common are being purchased by the underwriters from certain stockholders. The remaining 35,000 shares of common are being purchased from the company. For details see issue of March 21. **Offering**.—Prices to public will be filed by amendment. **Underwriters**—Hirsch & Co., New York, is principal underwriter.

Sunday, April 7

Allianceware, Inc.

on March 19 filed a registration statement for 12,000 shares of $2.50 convertible preferred stock (par $50) and 25,000 shares of common (par $1). Common shares are being sold by certain stockholders. For details see issue of March 21. **Offering**—Prices to the public will be filed by amendment. **Underwriters**—Principal underwriters are Hayden, Miller & Co., Hawley, Shepard & Co. and Maynard H. Murch & Co.

Flintkote Company

on March 19 filed a registration statement for 150,000 shares of common stock (no par). **Address**—30 Rockefeller Plaza, New York, N. Y. **Business**—Various asphalt and asbestos-cement roofing and siding products, structural and decorative insulating board products, etc. **Offering**—Price to public will be filed by amendment. **Proceeds**—Proceeds will be used for acquisition and construction of additional plant facilities and equipment. In addition to proceeds from sale of common stock, company received $2,775,000 from sale of 25,000 shares of $4 cumulative preferred, sold privately by Lehman Brothers at $111 per share during current month. Proceeds from sale of preferred stock will be added to working capital and used for general corporate purposes. **Underwriters**—Lehman Brothers heads underwriting group. **Registration Statement** No. 2-6237. Form S-1.

Harrisburg Gas Co.

on March 19 filed a registration statement for $2,200,000 first mortgage bonds due May 1, 1971. Bonds will be offered for sale at competitive bidding and interest rate filed by amendment. **Address**—14 South Market Street, Harrisburg, Pa. **Business**—Public utility. **Offering**—Price to public will be filed by amendment. **Proceeds**—Net proceeds are to be applied to redemption on June 1, 1946 at 105 of an equal amount of first mortgage 5% bonds requiring $2,310,000. Company will use general funds to extent necessary and to pay accrued interest. **Underwriters**—To be filed by amendment. **Registration Statement** No. 2-6240. Form S-1.

Stromberg-Carlson Company

on March 19 filed a registration statement for 67,731 shares of convertible preferred stock (par $50). Divi-

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Calendar of New Security Flotations

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dend rate will be filed by amendment. For details see issue of March 21. **Offering**—Company is offering to holders of common stock pro rata rights to subscribe to new preferred on basis of one share of preferred for each four shares of common held of record April 8, at price to be filed by amendment. Price to the public will be filed by amendment. **Underwriter**—First Boston Corp. is named principal underwriter.

Tennessee Gas & Transmission Co.

on March 19 filed a registration statement for $35,000,000 first mortgage pipe line bonds due 1966; 100,000 shares 4.10% cumulative preferred stock ($100 par) and 484,444 shares of common stock ($5 par). Of the common stock, 350,000 shares are to be purchased by underwriters from company, and 134,444 shares are being purchased from certain stockholders. **Address**—Commerce Building, Houston, Texas. **Business**—Operates a natural gas transmission pipe line system, extending from the Stratton-Agua Dulce field in Texas to West Virginia. **Offering**—Prices to public will be filed by amendment. **Proceeds**—Of net proceeds to be received by company from sale of bonds, preferred stock and 350,000 shares of common and from $10,000,000 bank loan, company will apply $36,078,625 to redemption of $34,525,000 first mortgage pipe line bonds 3% series at 104½; $8,100,000 to redemption of 75,000 shares of 5% cumulative preferred stock at $108 per share, and $15,000,000 to repayment of 2% bank loan. Remainder will be added to general funds of company. Proceeds from sale of 134,444 shares of common will go to selling stockholders. First Boston Corp., 53,172 shares; Mellon Securities Corp., 53,172; White, Weld & Co., 18,100, and Central Republic Co., Inc., 10,000. **Underwriters**—Group is headed by Stone & Webster Securities Corp. and White, Weld & Co. **Registration Statement** No. 2-6238. Form S-1.

Tex-O-Kan Flour Mills Co.

on March 19 filed a registration statement for 40,000 shares of cumulative preferred stock (par $100). Dividend rate will be filed by amendment. **Address**—Mercantile Bank Building, Dallas, Texas. **Business**—Flour milling, terminal grain elevator operations, feed milling and bag manufacturing. **Offering**—Company is offering to holders of 26,710 shares of 7% preferred stock an opportunity to exchange such stock for new preferred on a share for share basis, with an adjustment of dividends. Underwriters will purchase any unexchanged new preferred shares plus 13,290 additional shares of new preferred which will be offered to public at a price to be filed by amendment. **Proceeds**—Will be used to redeem at $103 per share any shares of old stock not exchanged for new and to increase working capital. **Underwriters**—Group headed by Kidder, Peabody & Co. and Rauscher, Pierce & Co., Inc. **Registration Statement** No. 2-6239. Form S-1.

Monday, April 8

C. J. Hendry Company

on March 20 filed a registration statement for 24,000 shares of preferred stock, 5½% cumulative (par $25). **Address**—27 Main Street, San Francisco, Calif. **Business**—General wholesale and retail ship chandlery and commercial fishing supplies business. **Offering**—Price to the public $25 per share. **Proceeds**—From sale of preferred stock, and of $750,000 10-year promissory note will be used with $499,063 other funds to pay in full $1,789,063 of temporary indebtedness incurred to complete the purchase of outstanding capital stock of predecessor. **Underwriters**—First Califoria Co. is named principal underwriter. **Registration Statement** No. 2-6244. Form S-1.

National Company, Inc.

on March 20 filed a registration statement for 200,000 shares of common stock (par $1). Company is selling 50,000 shares and certain stockholders are selling 150,000 shares. **Address**—61 Sherman Street, Malden, Mass. **Business**—Manufacture of radio receiving and transmitting apparatus. **Offering**—Price to public $6 per share. **Proceeds**—To company will be used to increase net working capital in order to permit company to build up an inventory for civilian business, to carry receivables, to purchase new machinery and equipment, etc. **Underwriters**—Bond & Goodwin, Inc., heads group. **Registration Statement** No. 2-6241. Form S-2.

Perfex Corporation

on March 20 filed a registration statement for 7,500 shares 4½% cumulative preferred stock (par $100) and 26,164 shares of common stock ($4 par). **Address**—500 W. Oklahoma Avenue, Milwaukee, Wis. **Business**—Industrial engine radiators, etc. **Offering**—Common stock is being offered to common stockholders on basis of one share of new common for each five shares held at a price to be filed by amendment. Unsubscribed common shares and preferred stock will be publicly offered by underwriters at prices to be filed by amendment. Net proceeds will be available for general corporate purposes and will be added to company's working capital pending specific allocation. **Underwriters**—Wisconsin Co. heads group. **Registration Statement** No. 2-6243. Form S-1.

Pressed Steel Car Co., Inc.

on March 20 filed a registration statement for 100,000 shares of common stock (par $1). **Address**—2500 Koppers Building, Pittsburgh, Pa. **Business**—Manufacture, sale and repair of railway freight and passenger cars, subway and industrial cars, etc. **Offering**—Price to public will be filed by amendment. **Proceeds**—Will be applied on account of purchase price of physical assets of Mt. Vernon Car Manufacturing Co., a wholly-owned subsidiary of H. K. Porter Co., Inc. Balance of purchase price will be provided out of general funds of company. In addition to fixed assets of Mt. Vernon, Pressed Steel Car will also purchase inventory of materials and supplies on hand at the take-over date July 1, 1946. Mt. Vernon has estimated that such inventory will approximate $600,000. Payment therefor will be made out of Pressed Steel Car's general funds, as will working capital for operation of Mt. Vernon plant after acquisition. **Underwriters**—Kuhn, Loeb & Co. heads group. **Registration Statement** No. 2-6242. Form S-1.

Utah Power & Light Co.

on March 20 filed a registration statement for $32,000,000 first mortgage bonds due May 1, 1976. Bonds will be sold at competitive bidding with interest rate to be filed by amendment. **Address**—Kearns Building, Salt Lake City, Utah. **Business**—Pubilc utility. **Offering**—Price to the public will be filed by amendment. **Proceeds**—Net proceeds from sale of bonds, and $11,500,000 bank loans and cash from general funds, will be used to redeem $38,500,000 3¾% first mortgage bonds at 104¾, and $5,000,000 6% gold debentures at 110% which, exclusive of interest, will require $45,828,750. **Underwriters**—To be filed by amendment. **Registration Statement** No. 2-6245. Form S-1.

Tuesday, April 9

Bendix Home Appliances, Inc.

on March 21 filed a registration statement for 104,301 shares of common stock (par 33⅓ cents per share.) **Address**—3300 West Sample Street, South Bend, Ind. **Business**—Manufacture of Bendix Home Laundry, an automatic washing machine. **Offering**—Company is offering to common stockholders of record March 30, right to subscribe to one share of new common for each 10 shares held at a price to be filed by amendment. Issue is not being underwritten, but holders of common of record on March 30, 1946, in addition to their pro rata subscription rights, will also be given an opportunity to purchase any shares which have not been purchased through subscription warrants. **Proceeds**—Will be used for additional working capital to finance the purchase of inventories and increase production to fill orders now on hand and anticipated. It is estimated that the production and sales of Bendix Home Laundries, when industrial disputes have been settled and materials and supplies are available, will total 50,000 per month, or a total sales volume per month of approximately $4,000,000. **Underwriters**—None. **Registration Statement** No. 2-6247. Form S-2.

Cuban Atlantic Sugar Co.

on March 21 filed a registration statement for 30,000 shares 5% cumulative preferred stock (par $100) and 175,000 shares of common (par $5). Of the total 20,000 shares of preferred and 137,500 shares of common are to be purchased by underwriters from company; and 10,000 shares of preferred and 37,500 shares of common from Hershey Trust Co., trustee of Hershey Industrial School of Hershey, Pa. Shares to be purchased from trustee are part of 40,000 shares of preferred and 137,500 shares of common to be issued by company to the trustee as part of the consideration for certain assets to be acquired by Cuban Atlantic. **Address**—99 Wall St., New York, N. Y. **Business**—Sugar. **Offering**—Prices to public will be filed by amendment. **Proceds**—The 30,000 shares of preferred and 175,000 shares of common to be offered form part of 60,000 shares of preferred and 275,000 shares of common which are being issued by Cuban Atlantic for purpose of acquiring all the outstanding securities (except directors' qualifying shares) of the corporations which constitute the Hershey sugar mills, refinery, railroad and other enterprises in Cuba. **Underwriters**—Group is headed by Wertheim & Co., and Ladenburg, Thalmann & Co. **Registration Statement** No. 2-6249. Form S-1.

Hearn Department Stores, Inc.

on March 21 filed a registration statement for 100,000 shares of common stock ($5 par). Shares are being sold by Endicott Co., Inc., a stockholder, which on Feb. 1, 1946, owned approximately 48% of the outstanding stock, including shares to be offered. Endicott Company is wholly-owned by Maurice Levin, chairman of board of Hearn. Following the sale Endicott Company will hold a balance of 36,879 shares of Hearn. **Address**—74 Fifth Avenue, New York, N. Y. **Business**—Department store. **Offering**—Price to public will be filed by amendment. **Underwriters**—E. W. Clucas & Co., and H. M. Byllesby & Co., Inc., are named principal underwriters. **Registration Statement** No. 2-6248. Form S-1.

Norwalk Tire & Rubber Co.

on March 21 filed a registration statement for $1,444,500 convertible debentures due April 15, 1956. Interest rate will be filed by amendment. **Address**—Norwalk, Conn. **Business**—Automobile, truck and bus rubber tires and tubes, etc. **Offering**—Company is offering to common stockholders right to subscribe for new debentures at rate of one $500 debenture for every 70 shares of common stock held at a price to be filed by amendment. Unsubscribed debentures will be purchased by underwriters who will offer them to the public at a price to be filed by amendment. **Proceeds**—Part of the proceeds will be applied to the payment of bank loan; approximately $265,000 will be expended for completion of certain unfinished buildings erected by government and purchased from RFC and approximately $200,000 will be used for modernization. Proceeds of bank loan were used to extent of $503,930 to redeem on April 1, 1946 company's 7% cumulative preferred stock and partly for purchase of buildings from RFC. Balance of the proceeds will be added to working capital. **Underwriters**—Carl M. Loeb, Rhoades & Co. is named principal underwriter. **Registration Statement** No. 2-6246. Form S-1.

Pennsylvania Electric Co.

on March 21 filed a registration statement for $23,500,000 first mortgage bonds, due 1976, and 101,000 shares of cumulative preferred stock, series C, par $100. Securities will be sold at competitive bidding, and interest and dividend rates will be filed by amendment. **Address**—222 Levergood Street, Johnstown, Pa. **Business**—Public utility. **Offering**—Prices to public will be filed by amendment. **Proceeds**—Net proceeds from sale of the bonds and preferred stock, together with proceeds ($5,000,000) to be received by company from sale of 10-year serial notes and proceeds ($1,376,860), to be received from sale of 68,843 shares of common stock to Associated Electric Co. will be applied toward the payment to Pennsylvania Edison Co. of $42,451,400, being purchase price for acquisition by company of all of the assets of Pennsylvania Edison Co. subject to certain liabilities. **Underwriters**—To be filed by amendment. **Registration Statement** No. 2-6250. Form S-1.

Wednesday, April 10

American Molasses Company

on March 22 filed a registration statement for 105,000 shares of common stock (par $1). Shares are being sold by certain stockholders. **Address**—120 Wall Street, New York, N. Y. **Business**—Refining and distribution of granulated cane sugar, production of liquid sugar, sugar syrups, edible molasses, etc. **Offering**—Price to public will be filed by amendment. **Underwriters**—Hornblower & Weeks and Union Securities Corp. head the group, with names of others to be filed by amendment. **Registration Statement** No. 2-6256. Form S-1.

Drackett Company

on March 22 filed a registration statement for 108,000 shares of 4% cumulative convertible preferred stock, series A (par $25). **Address**—5020 Spring Grove Avenue, Cincinnati, Ohio. **Business**—Chemical manufacturing. **Offering**—Price to public is $25 per share. **Proceeds**—Will be used to redeem at 106½ $1,467,000 5% 15-year debentures, and to redeem at $21.50 per share 37,500 shares of 5% preferred stock. Balance of proceeds will be applied to general corporate purposes. **Underwriters**—Underwriting group is headed by Van Alstyne, Noel & Co. **Registration Statement** No. 2-6253. Form S-1.

Fruehauf Trailer Company

on March 22 filed a registration statement for 125,000 shares of cumulative stock (par $100). Dividend rate will be filed by amendment. **Address**—10940 Harper Avenue, Detroit, Mich. **Business**—Manufacturer of truck-trailers. **Offering**—Price to public will be filed by amendment. **Proceeds**—From net proceeds approximately $8,900,000 will be expended for construction, acquisition of, or additions to, manufacturing facilities for production of truck trailers. This amount will be applied to programs presently in progress at the following locations: erection and equipment of a plant at Avon Lake, Ohio, approximately $7,600,000; an addition to plant and equipment in Fort Wayne, Ind., division, approximately $800,000; and an addition to plant at Vernon, Calif., approximately 500,000. A program for erection and equipment of a new plant at Pomona, Calif., is under consideration, but no final determination has been made. Estimates in connection with this plant are placed at $2,900,000, and, if finally determined upon, it is possible a portion of net proceeds might be expended for such purposes. It is stated that if developments require funds in excess of net proceeds it may be advisable to provide additional funds through the sale of stock, bank borrowing or other financing, but company has no present plans for such additional financing. **Underwriters**—Lehman Brothers and Watling, Lerchen & Co. head group. **Registration Statement** No. 2-6254. Form S-1.

Palmetex Corporation

on March 22 filed a registration statement for 250,000 shares common stock (par $1). **Address**—Pinellas Park, Florida. **Business**—Production of cement board products and palmetto products, all primarily for use in the building industry. **Offering**—Price to the public is $3.25 per share. **Proceeds**—Will be applied for purchase of a plant occupied by company under lease, for a new dryer, for repayment of notes and royalties and balance for working capital. **Underwriters**—Floyd D. Cerf Co., Inc., Chicago, is named principal underwriter. **Registration Statement** No. 2-6255. Form S-2.

St. Joseph Light & Power Co.

on March 22 filed a registration statement for $3,750,000 first mortgage bonds due April 1, 1976. Bonds will be sold at competitive bidding with successful bidder naming interest rate. **Address**—520 Francis Street, St. Joseph, Mo. **Business**—Public utility. **Offering**—Price to the public will be filed by amendment. **Proceeds**—To be used to redeem $3,635,000 first mortgage bonds, 4½% series due 1947, at 100 and any balance will be added to treasury funds for construction purposes. Accrued interest will be paid out of general funds. **Underwriters**—To be filed by amendment. **Registration Statement**—No. 2-6251. Form S-1.

United Biscuit Co. of America

on March 22 filed a registration statement for $10,000,000 debentures due April 1, 1966. Interest rate will be filed by amendment. **Address**—1041 West Harrison St., Chicago, Ill. **Business**—Manufacture of varied lines of crackers, cookies and biscuits. **Offering**—Price to the public will be filed by amendment. **Proceeds**—Will be applied to redemption of $4,270,000 3½% debentures due April 1, 1955, at 103½ and of 25,000 shares of 5% cumulative preferred stock at $107.50 per share, requiring, exclusive of accrued interest and dividends, a total of $7,106,950. The remainder of proceeds will be added to the general funds. **Underwriters**—Goldman, Sachs & Co. heads group. **Registration Statement** No. 2-6252. Form A-2.

Saturday, April 13

Bowser, Inc.

on March 25 filed a registration statement for 200,000 shares of $1.20 cumulative preferred stock (par $25), with common stock purchase warrants attached. **Address**—1302 E. Creighton Avenue, Fort Wayne, Ind. **Business**—Manufacture of liquid control devices, etc. **Offering**—Price to the public will be filed by amendment. **Proceeds**—Of net proceeds $423,100 will be applied to redemption of first mortgage 5% sinking fund bonds, $1,610,650 to redemption of 5% sinking fund debenture bonds, and $982,800 to redemption of the first preferred stock. Balance will be added to working capital. **Underwriters**—Blair & Co., Inc., New York, heads group. **Registration Statement** No. 2-6257. Form S-1.

Kingston Products Corporation

on March 25 filed a registration statement for 148,448 shares of common stock (par $1). Shares are being sold by certain stockholders. **Address**—1412 North Webster Street, Kokomo, Ind. **Business**—Manufacture of automobile parts, radio receiving sets, vacuum cleaners, hydraulic lifting devices, etc. **Offering**—Price to the public will be filed by amendment. **Underwriters**—Alison & Co., Detroit, heads group. **Registration Statement** No. 2-6258. Form S-1.

F. H. McGraw & Co.

on March 25 filed a registration statement for 36,000 shares of $1.50 preferred stock (no par) and 100,000 shares of common (par 10 cents). **Address**—780 Windsor Street, Hartford, Conn. **Business**—Industrial construction. **Offering**—Prices to public will be filed by amendment. **Proceeds**—Financing is in connection with proposed recapitalization of company. The capital stock is to be reclassified so that outstanding 1,250 shares of common stock are to be reclassified into 100,392 shares of class A stock, 75,000 shares of common stock and simultaneously 36,000 shares of preferred stock and an additional 250,000 shares of common are to be authorized. Out of proceeds of present financing, company will apply $383,971 to payment of notes issued to F. H. McGraw and J. Metz McGraw in connection with purchase of their shares of company's former or old common stock. Balance of net proceeds will be added to working capital. **Underwriters**—Granbery, Marache & Lord and Bear, Stearns & Co. head the group. **Registration Statement** No. 2-6260. Form S-1.

Public Service Co. of Indiana, Inc.

on March 25 filed a registration statement for 150,000 shares of cumulative preferred stock (par $100). Dividend rate will be filed by amendment. **Address**—110 North Illinois Street, Indianapolis, Ind. **Business**—Public utility. **Offering**—Company proposes to issue the 150,000 shares of new preferred for purpose of refinancing at a lower dividend rate the 148,186 outstanding shares of old preferred, 5% cumulative, series A. Exchange will be on a share for share basis with cash adjustment. Any of the 150,000 shares not issued under exchange offer will be sold for cash to underwriters, and proceeds applied with treasury funds to redemption of unexchanged old preferred shares. The services in effecting the exchange offer and sale of unexchanged preferred will be at competitive bidding. **Purpose**—To refinance outstanding preferred stock. **Underwriters**—To be supplied by amendment. **Registration Statement** No. 2-6259. Form S-1.

Sonotone Corporation

on March 25 filed a registration statement for 60,000 shares $1.25 cumulative convertible preferred stock, series A (par $20). **Address**—Elmsford, N. Y. **Business**—Hearing-aid instruments. **Offering**—Price to public is $25 per share. **Proceeds**—Of proceeds, $250,000 will be used to retire a bank note and approximately $550,000 to reacquire from a bank all of the customers' instalment payment contracts previously sold to the bank. The balance will be used to augment working capital. **Underwriters**—Group is headed by Van Alstyne, Noel & Co. **Registration Statement** No. 2-6261. Form S-1.

Sunday, April 14

Avon Allied Products, Inc.

on March 26 filed a registration statement for 37,220 shares of 4% cumulative preferred stock (par $50) and 100,000 shares of common (no par). Of the total, company is selling 20,200 shares of preferred and certain stockholders are selling 17,020 shares of preferred and 100,000 shares of common. **Address**—30 Rockefeller Plaza, New York, N. Y. **Business**—Cosmetics and toiletries. **Offering**—Prices to public will be filed by amendment. **Proceeds**—Of the proceeds to be received by company from the sale of 20,200 shares of preferred stock, $500,000 will be used to make a loan to company's subsidiary, Avon Products, Inc., to apply in reduction of $1,750,000 2¼% bank loan. Balance of proceeds, with other funds, will be used to expand and modernize facilities of company and its subsidiaries. **Underwriters**—Group is headed by Hemphill, Noyes & Co., F. S. Moseley & Co. and H. F. Boynton & Co., Inc. **Registration Statement** No. 2-6263. Form A-2.

Red Top Brewing Company

on March 26 filed a registration statement for 150,000 shares of class A common stock (par $1). Shares are being sold by certain stockholders. **Address**—1747 Central Avenue, Cincinnati, O. **Business**—Malt beverages, beer and ale. **Offering**—Offering price to public is $10.50 per share. **Underwriters**—Group is headed by Westheimer & Co., Cruttenden & Co., A. G. Edwards & Sons, Loewi & Co., Stein Bros. & Boyce, the Ohio Company and Piper, Jaffray & Hopwood. **Registration Statement** No. 2-6262. Form S-1.

DATES OF OFFERING UNDETERMINED

We present below a list of issues whose registration statements were filed twenty days or more ago, but whose offering dates have not been determined or are unknown to us.

American Airlines, Inc.

on March 4 filed a registration statement for 97,350 shares of common stock (par $5). For details see issue of March 7. **Offering**—Company is offering to issue 97,350 shares of its common stock to all stockholders of Mid-Continent Airlines, Inc., in exchange for common stock of Mid-Continent in ratio of one share of common stock of American for each four shares of common stock of Mid-Continent (par $1). **Underwriting**—None named.

American Metal Products Co.

on March 6 filed a registration statement for 150,000 shares of common stock ($2 par). The shares are being sold by five stockholders. For details see issue of March 14. **Offering**—Price to public will be filed by amendment. **Underwriters**—Watling, Lerchen & Co., Detroit, heads underwriting group.

American Potash & Chemical Corp.

on Dec. 28 filed a registration statement for 478,194 shares of capital stock (no par). Shares are issued and outstanding and are being sold by the Alien Property Custodian. For 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 were to 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. For details see issue of Oct. 11. **Offering**—Price to the public is $5.50 per share. **Underwriters**—Shares will be sold through the efforts of the directors and employees of the corporation.

Atlas Imperial Diesel Engine Co.

on Feb. 28 filed a registration statement for 30,000 shares of series A cumulative preferred stock ($50 par). Dividend rate will be filed by amendment. For details see issue of March 7. **Underwriters**—Blyth & Co., Inc., heads the underwriting group.

Bassett Furniture Industries, Inc.

on Feb. 26 filed a registration statement for 30,000 shares of common stock (par $5). The stock is to be purchased from W. M. Bassett, President. For details see issue of Feb. 27. **Offering**—Price to the public is $30 per share. **Underwriters**—Scott, Horner & Mason, Inc., Lynchburg, Va., and Kirchofer and Arnold, Inc., Raleigh, N. C., are the principal underwriters.

Bendix Helicopter, Inc.

on Feb. 13 filed a registration statement for 507,400 shares of common stock (par 50c). Shares are being sold for the account of the estate of Vincent Bendix, deceased. For details see issue of Feb. 20. **Offering**—Shares will be sold in the over-the-counter market. **Underwriters**—Kobbe, Gearhart & Co., Inc., is named principal underwriter.

E. W. Bliss Co.

on March 7 filed a registration statement for 100,000 shares of $2.25 convertible preferred stock (no par). For details see issue of March 14. **Offering**—The price to the public will be filed by amendment. **Underwriters**—Allen & Co.

(F.) Burkart Manufacturing Co.

on Feb. 28 filed a registration statement for 10,000 shares of common stock (par $1). Shares are being sold by certain stockholders. For details see issue of March 7. **Offering**—Price to the public will be filed by amendment. **Underwriters**—G. H. Walker & Co., St. Louis, principal underwriter.

Cardiff Fluorite Mines, Ltd.

on March 6 filed a registration statement for 250,000 shares of common stock (par $1). For details see issue of March 14. **Offering**—Price to public is 60 cents a share, Canadian funds. Arrangements have been made with registrant to sell 500,000 shares at 40 cents per share to net company $200,000. It is intended that 250,000 of these shares shall be offered in the United States and 250,000 of same offered in Canada. F. R. Marshall has subscribed for 100,000 shares at 40 cents per share to net the treasury $40,000, with the understanding that he will later purchase on additional 400,000 shares at same price. **Underwriters**—Frank P. Hunt, 42 East Avenue, Rochester, N. Y., will handle the issue in the United States.

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 10c). For details see issue of Feb. 14. **Offering**—The preferred stock will be offered to 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 to common stockholders at a price to be filed by amendment, but 50 cents per share under public offering price. The unsubscribed balance of common will be offered to the public by underwriters at a price to be filed by amendment. **Underwriters**—As to the preferred, Childs, Jeffries & Thorndike, Inc., and H. C. Wainwright & Co., and as to the common, First Colony Corp.

Clinton Industries, Inc.

on March 5 filed a registration statement for 100,000 shares of capital stock (par $1). For details see issue of March 14. **Offering**—Price to public will be filed by amendment. **Underwriters**—Smith, Barney & Co. and Newhard, Cook & Co. head the underwriting group.

Cribben & Sexton Co.

on Feb. 28 filed a registration statement for 40,000 shares 4½% cumulative convertible preferred stock (par $25) and 45,000 shares of common (par $5). The preferred and 5,695 shares of common are being offered by company and 39,305 shares of common by certain stockholders. For details see issue of March 7. **Offering**—Price of preferred to public is $25 per share and of common $13.50 per share. **Underwriters**—Paul H. Davis & Co., Chicago, is named principal underwriter.

Dallas Title & Guaranty Co.

on Feb. 21 filed a registration statement for 25,000 shares of capital stock (par $10). For details see issue of Feb. 27. **Offering**—Company has granted holders of capital stock rights to subscribe at $20 per share to new stock at rate of one share of new for each share held. Company reserves right to sell any unsubscribed stock at public or private sale at $20 per share. **Underwriters**—None named.

Dallas Yellow Knife Gold Mines, Ltd.

on Feb. 8 filed a registration statement for 300,000 shares of capital stock (par $1). For details see issue of Feb. 14. **Offering**—Shares are offered at 50 cents per share as a speculation. **Underwriter**—Mark Daniels, 1840 Morris Building, Philadelphia, Pa., and 371 Bay Street, Toronto, is named underwriter, with commission of 30% and 5% additional allowance to cover advertising and traveling expenses.

District Theatres Corp.

on Feb. 26 filed a registration statement for 140,000 shares of common stock (par $1). Shares are being sold by certain stockholders. For details see issue of March 7. **Offering**—Price to the public will be filed by amendment. **Underwriters**—First Colony Corp., Simons, Linburn & Co., Inc., Courts & Co., Johnston, Lemon & Co., Irving J. Rice & Co., Ira Haupt & Co., and Coburn & Middlebrook.

Drug Products Co., Inc.

on Feb. 25 filed a registration statement for 225,000 shares of common stock (par $1). Of total 175,000 shares are being offered to public through underwriters and 50,000 shares are offered to warrant holders. For details see issue of Feb. 27. **Offering**—Price to public on 175,000 shares is $4.50 a share. **Underwriters**—Bond & Goodwin, Inc., is named principal underwriter.

Eaton Manufacturing Co.

on March 7 filed a registration statement for 178,364 shares of common stock (par $4). For details see issue of March 14. **Offering**—Company is offering the new stock to holders of its common stock at rate of one new share for each four common shares. Price to be filed by amendment. Company is selling the unsubscribed stock to underwriters who will offer it to the public. **Underwriters**—Merrill Lynch, Pierce, Fenner & Beane heads the underwriting group.

Electromaster, Inc.

on March 4 filed a registration statement for 200,000 shares of common stock (par $1). For details see issue of March 7. **Offering**—Price to the public is $4.375 per share. **Underwriters**—S. R. Livingstone & Co. and Mercier, McDowell & Dolphyn, Detroit.

Equipment Finance Corp.

on Feb. 25 filed a registration statement for 13,877 shares 4% cumulative series 2 preferred (par $100) and 28,159 shares of common (par $10). For details see

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Calendar of New Security Flotations

(Continued from page 1681)

issue of Feb. 27. **Offering**—Price to public is $100 per share for preferred and $10 per share for the common. Company anticipates that all of the preferred and common will be sold to employees and officers of the company, and employees and officers of Curtiss Candy and its subsidiaries. In the event of a public offering, company will file a post-effective amendment. **Underwriters**—Sale of stock will be made through company's own officers and employees.

Garthack Mining Co., Ltd.

on March 4 filed a registration statement for 300,000 shares of capital stock. For details see issue of March 7. **Offering**—The price to the public is 50 cents per share. **Underwriters**—Mark Daniels, 371 Bay Street, Toronto, Canada, holds an option on 300,000 shares of capital stock. His plan of distribution is to allot the stock optioned by him to different American brokers and allow them a commission of 25% for selling. **Registration Statement** withdrawn March 21.

Giant Yellowknife Gold Mines, Ltd.

on Feb. 21 filed a registration statement for 81,249 common shares ($1 par, Canadian). Shares are being offered to residents of United States and Canada by Toronto Mines Finance Ltd. These 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 $5 (Canadian) per share. For details see issue of Feb. 27. **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, Ltd., 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 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. **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.

Glore Aircraft Corp.

on March 6 filed a registration statement for 150,000 shares of 5½% cumulative convertible preferred stock (par $10). For details see issue of March 14. **Offering**—Corporation was organized in Delaware, Feb. 23, 1946, for purpose of acquiring the assets of Globe Aircraft Corp. (Texas). Pursuant to reorganization plan, company acquired all of the assets of the Texas company and in consideration therefor issued to the Texas company 450,000 shares of common stock, and agreed to assume the liabilities of the Texas company. Pursuant to the plan, the Texas company will distribute on a share for share basis to holders of its common stock the shares of common stock in the Delaware company which the Texas company has received and the Texas company will be dissolved. Company is offering holders of common stock all of the preferred stock on the basis of one share preferred for each 3 shares of common at $9 per share. Company has agreed with Kobbe, Gearhart & Co., Inc., and Newburger & Hano to sell to them that portion of the offering which may not be subscribed for by the common stockholders. The public offering price is $10 per share. **Underwriters**—Kobbe, Gearhart & Co., Inc., and Newburger & Hano.

Adolf Gobel, Inc.

on Jan. 10 filed a registration statement for 412,899 shares of common stock (par $1). Shares are being sold on behalf of the Adolf Gobel, Inc., syndicate. For details see issue of Jan. 17. **Offering**—Common stock will be sold through regular market channels over the New York Curb Exchange at best price obtainable in small lots so as not to unduly depress the market. The proposed stock offering constitutes 63.9% of the company's outstanding common stock. There are 12 members in the syndicate. **Underwriters**—No underwriting discounts and commissions are being paid.

Gold City Porcupine Mines, Ltd.

on Jan. 4 filed a registration statement for 600,000 shares of common stock (par $1) Canadian currency. For details see issue of Jan. 10. **Offering**—Company is offering common stock to public at 50 cents U. S. currency per share. If company accepts offers from dealers to purchase the stock, 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 is $300,000 U. S. currency maximum, and $195,000 U. S. currency minimum, if all shares are sold, and assuming in any event that all the shares are sold. **Underwriters**—No underwriters named.

Graham-Paige Motors Corp.

on Feb. 21 filed a registration statement for $12,000,000 4% secured convertible debentures due March 1, 1956, and 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. For details see issue of Feb. 27. **Offering**—Price to the public will be filed by amendment. **Underwriters**—Allen & Co., New York.

Gulf Atlantic Transportation Co.

on Jan. 17 registered 270,000 shares of common stock (par $1). For details see issue of Jan. 24. **Offering**—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. 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**—Principal underwriter is Allen & Co.

Hayes Manufacturing Corp.

on Feb. 27 filed a registration statement for 215,000 shares of common stock ($2 par). Shares are being sold by certain stockholders. For details see issue of March 7. **Offering**—Price to the public will be filed by amendment. **Underwriters**—Laird, Bissell & Meeds.

Hein-Werner Motor Parts Corp.

on March 1 filed a registration statement for 40,000 shares of common (par $3). For details see issue of March 7. **Offering**—Shares are being offered to holders of common stock at rate of one share of new common for each 2½ shares held on March 8 at $15 per share. Unsubscribed stock will be sold to public by underwriters at $15 per share. **Underwriters**—The Wisconsin Co. heads the underwriting group.

Hood Chemical Co., Inc.

on Feb. 26 filed a registration statement for 205,000 shares of common stock (par 33c). For details see issue of Feb. 27. **Offering**—Price to public $5 per share. **Underwriters**—No underwriters. Company is undertaking to distribute its common stock directly to the public.

Illinois Power Co.

on Feb. 27 filed a registration statement for $45,000,000 first mortgage bonds due 1976 and $9,000,000 sinking fund debentures due 1966. Securities will be offered for sale at competitive bidding with price and interest rates to be named by the successful bidder. For details see issue of March 7. **Underwriters**—Names will be filed by amendment.

Indianapolis Power & Light Co.

on March 8 filed a registration statement for 142,967 shares of common stock (no par). For details see issue of March 14. **Offering**—Company is offering the stock to holders of common stock at a price to be filed by amendment at rate of one share of new common for each five shares held. **Underwriters**—Underwriting group is headed by Lehman Brothers, Goldman, Sachs & Co. and The First Boston Corp.

Jefferson-Travis Corp.

on Feb. 27 filed a registration statement for 30,000 shares of $1.25 cumulative convertible preferred (no par) and 130,000 shares of common (par 25c). Common shares are reserved for conversion of preferred. For details see issue of March 7. **Offering**—Price to public is $25 per share. **Underwriters**—Richard J. Buck & Co.

Kerr-McGee Oil Industries, Inc.

on Feb. 28 filed a registration statement for 60,000 shares of $1.20 cumulative convertible preferred stock ($22.50 par). For details see issue of March 7. **Offering**—Price to public is $25 per share. **Underwriters**—Straus & Blosser, Chicago.

R. G. LeTourneau, Inc.

on March 7 filed a registration statement for 50.000 shares of $4 cumulative preferred stock (no par). For details see issue of March 14. **Offering**—Price to public will be filed by amendment. **Underwriters**—Underwriting group includes Alex. Brown & Sons, Dean Witter & Co., F. S. Moseley & Co., Kebbon, McCormick & Co. and Shields & Co.

Linn Coach & Truck Corp.

(Formerly Oneonta Linn Corp.)

on Feb. 28 filed a registration statement for 250,000 shares of common (par 10c). For details see issue of March 7. **Offering**—Price to public is $3 per share. **Underwriters**—Bond & Goodwin, Inc.

Mission Appliance Corp.

on Feb. 26 filed a registration statement for 133,000 shares of common stock (par $5). Of total 102,150 shares are being sold by company and 30,850 by certain stockholders. For details see issue of March 7. **Offering**—Price to public will be $8.25 per share. **Underwriters**—Lester & Co., Los Angeles, Calif.

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 (10c par). Dividend rate on preferred will be filed by amendment. The statement covers 200,000 additional shares of common reserved against warrants. For details see issue of Feb. 7. **Offering**—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). For details see issue of Feb. 7. **Offering**—Stock is being offered by the company for subscription to the holders of its common stock of record March 20 pro rata, at the rate of one-sixth of one share for each share held at $62 per share. Rights expire at 3 p.m. April 8. Unsubscribed shares will be offered to the public by underwriters. **Underwriters**—Glore, Forgan & Co. and Harriman Ripley & Co., Inc.

Oklahoma Gas & Electric Co.

on Feb. 7 filed a registration statement on 675,000 shares of 4% cumulative preferred stock (par $20). For details see issue of Feb. 14. **Offering**—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. 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. **Dealer-Manager**—Merrill Lynch, Pierce, Fenner & Beane.

Pacific Airmotive Corp.

on Feb. 28 filed a registration statement for 150,000 shares of capital stock (par $1). For details see issue of March 7. **Offering**—Company offers to stockholders the right to subscribe for 150,000 shares on basis of three-tenths of one share for each share of stock held at price to be filed by amendment. Union Oil Co. of California, beneficial owner of 212,234 shares (42.45%) of capital stock of Pacific, has agreed to purchase at subscription price all shares of capital stock offered and not subscribed. Union Oil will acquire shares for investment only. **Underwriters**—None mentioned.

Palestine Economic Corp.

on Dec. 28 registered 20,000 shares of common stock ($100 par). For details see issue of Jan. 3. **Offering**—Offering price to public $100 per share. **Underwriting**—No underwriting.

Peerless Casualty Co.

on March 8 filed a registration statement for 50,000 shares of common stock (par $5). For details see issue of March 14. **Offering**—Company is offering the 50,000 shares of common to common stockholders in ratio of 5 additional shares for each 11 shares held, at $14 per share. Unsubscribed shares will be sold to underwriters and sold to public at $14 per share. **Underwriters**—Herrick, Waddell & Co., Inc., New York, heads the underwriting group.

Piper Aircraft Corp.

on Feb. 18 filed a registration statement for 150,000 shares of common stock (par $1). For details see issue of Feb. 20. **Offering**—Price to the public will be filed by amendment. **Underwriters**—Hayden, Stone & Co.

Public Service Co. of New Hampshire

on March 1 filed a registration statement for 102,000 shares of preferred stock ($100 par). Stock is to be offered at competitive bidding, with dividend rate supplied by amendment. For details see issue of March 7. **Offering**—Stock will first be offered to holders of company's $6 and $5 dividend preferred stock on a share for share basis, with cash adjustment. Unexchanged shares of new preferred are to be sold to underwriters for resale to public. All shares of old preferred not exchanged will be called for redemption at $107.50 for the $6 and $105 for the $5 preferred, plus accrued dividends. **Underwriters**—To be filed by amendment.

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). Interest and dividend rates will be filed by amendment. For details see issue of Feb. 14. **Offering**—Bonds and preferred stock will be sold at competitive bidding. **Underwriters**—Names of 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). Shares are being sold by H. F. Sinclair. For details see issue of Jan. 3. **Offering**—Price to the public will be based on market estimated at $18 per share. **Underwriters**—Kuhn, Loeb & Co.

Southwestern Public Service Co.

on Feb. 27 filed a registration statement for two classes of cumulative preferred stock, consisting of 65,000 and 50,000 shares, respectively. Dividend rate will be filed by amendment. For details see issue of March 7. Offering—An aggregate of only 65,000 shares of both classes of preferred stock are to be issued at this time. Holders of outstanding 4¾% old preferred will be given the opportunity to exchange the old preferred for the new preferred on a share for share basis, with cash adjustment. All shares of old preferred not exchanged will be redeemed. Unexchanged new shares will be offered by the underwriters at price to be filed by amendment. **Underwriters**—Dillon, Read & Co. Inc.

Standard Factors Corp.

on Feb. 27 filed a registration statement for $750,000 4¾% 15-year convertible subordinated debentures, due Dec. 31, 1960, and 22,500 shares of common stock (par $1). For details see issue of March 7. **Offering**—Debentures and common stock are offered in units, consisting of one $1,000 debenture and 30 shares of common stock, at $1,050 per unit. **Underwriters**—Sills, Minton & Co., Inc.

Textron, Inc.

on Dec. 28 filed a registration statement for 300,000 shares of 5% convertible preferred stock (par $25). For details see issue of Jan. 3. **Offering**—Price to public will be filed by amendment. **Underwriting**—To be filed by amendment.

Thompson Products, Inc.

on March 8 filed a registration statement for 40,000 shares 4% cumulative preferred stock ($100 par) and 75,000 shares of common stock (no par). For details see issue of March 14. **Offering**—The offering prices to public will be filed by amendment. **Underwriters**—Underwriting group is headed by Smith, Barney & Co., McDonald & Co. and Shields & Co.

Union Wire Rope Corp.

on Feb. 4 filed a registration statement for 42,000 shares capital stock, (no par). For details see issue of Feb. 7. **Offering**—Company will offer the 42,000 shares for a period of two weeks after the effective date of registration for sale to stockholders at $15.50 per share. Shares not purchased by the stockholders will be offered by underwriter at $15.50 per share. **Underwriters**—P. W. Brooks & Co., Inc., New York.

United States Radiator Corp.

on Jan. 29 filed a registration statement for 92,344 shares of common stock, par $1. For details see issue of Feb. 7. **Offering**—Company has granted to holders of common stock rights to subscribe for not exceeding 92,344 shares of common at $11 per share at rate of one new share for each 2½ shares held. Unsubscribed shares will be purchased by underwriters and offered to the public at a price to be filed by amendment. **Underwriters**—White Weld & Co. named principal underwriter.

Virginia Red Lake Mines, Ltd.

on June 24 filed a registration statement for 220,000 shares of capital stock, par $1 (Canadian). For details see issue of Aug. 2. **Offering**—Offering price to public 28 cents United States funds. **Underwriters**—Willis E. Burnside & Co., New York.

Wilson Brothers

on March 8 filed a registration statement for 60,000 shares 5% cumulative preferred stock ($25 par) with non-detachable warrants, and 120,000 shares of common ($1 par). Of the total shares covered, 13,266 preferred and 20,000 common are being sold by a stockholder. For details see issue of March 14. **Offering**—Price of preferred is $25 per share. Offering price of common will be filed by amendment. **Underwriters**—The underwriting group is headed by Hemphill, Noyes & Co.

Yank Yellowknife Gold Mines, Ltd.

on Feb. 13 filed a registration statement for 1,000,000 shares of common stock, par $1. For details see issue of Feb. 20. **Offering**—Offering price to public is 30 cents per share, United States funds. **Underwriters**—J. J. Carrick, Ltd., Toronto, Canada.

Young Radiator Co.

on Jan. 29 filed a registration statement for 100,000 shares of common stock (par $1). Company is also registering 40,000 shares of common reserved for issuance upon exercise of warrants. For details see issue of Feb. 7. **Offering**—Price to public is $8.25 per share. Of 40,000 warrants to purchase common stock at $8.25 per share prior to Feb. 1, 1951, 20,000 were issued to stockholders on recapitalization and 20,000 are being sold to underwriters at 10 cents per warrant share. **Underwriters**—Van Alsyne, Noel & Co.

Contests NAM Views on Inflation

(Continued from page 1632)

accounts when the Treasury balance is disbursed. Also, it excludes holdings of liquid assets by non-profit associations, State and local governments and certain other groups. A more inclusive figure (still excluding holdings by Government trust funds, commercial banks, savings banks, and insurance companies) for December 1945 approaches $275 billion.

(3) In reducing the $145 billion of personal holdings to $17 billion, Mr. Wason first excludes all items other than currency and demand deposits held by individuals—that is, he excludes holdings of all types by trust funds ($16 billion) as well as all time deposits ($45 billion) and U. S. security holdings ($41 billion) of individuals. Thus, he reduces the total from $145 to $43 billion. While there is justification for arguing that liquid assets held in the form of currency or demand deposits are more likely to be spent than those held in the form of time deposits or as investments in U. S. Government securities, this difference is one of degree only. Certainly, it is not justifiable to exclude altogether the $86 billion of time deposits and U. S. security holdings by individuals. Should investors be given reason to fear that the purchasing value of their investments might dwindle away due to price increases, securities would be offered for sale on a large scale. In protecting the Government security market the banking system would have to stand ready to absorb these securities and in the process they would be transformed into cash and demand deposits, which would then be available for expenditure.

(4) Taking the $43 billion of currency and demand deposits held by individuals, Mr. Wason argues that the amount held in 1939, or $11 billion, should be deducted and only the increase of $32 billion be considered. Some adjustment of this kind is not unreasonable. Individuals and businesses may be expected to draw more readily upon recent additions to their liquid assets than to reduce their holdings below a level to which they have been accustomed for some time. Yet, it does not follow that, therefore, the entire amount of prewar holdings cannot be drawn on under any circumstances. That depends on people's expectations as to price developments.

(5) Next, Mr. Wason points out that personal incomes have about doubled since 1939 and concludes that people may hence be expected to carry approximately twice the amount of their prewar holdings of liquid assets. educting another $15 billion on these grounds, he arrives at a total of about $17 billion. Again, Mr. Wason much overshoots the mark.

When considering the increased volume of liquid assets, some allowance can properly be made for the simultaneous expansion in the level of output and income. Some increase in the level of liquid asset holdings is to be expected. However, the sharp increase in liquid assets relative to the level of national income that has occurred (see table) far exceeds a reasonable allowance for this factor under present conditions, when a large part of the gross national product is not yet available to civilian purchasers and production is not yet adjusted to demand. Thus, liquid assets held by businesses and individuals were 60% of gross national product in 1941; for the end of 1945 the same percentage is estimated at 124%. Taking demand and currency alone, the increase is from 30 to 48%. Taking U. S. security holdings, the increase is from 12 to 50%. These are large increases and should not be dismissed as merely the result of higher levels of income and production.

LIQUID ASSET HOLDINGS AND GROSS NATIONAL PRODUCT
(In Billion Dollars)

Calendar Year—	GNP	†Liquid Assets Held by —Individuals and Businesses— Total	Demand Deposits and Curr.	Time Deposits	U. S. Govt. Sec.	—As Percentage of GNP— Total	Demand Deposits and Curr.	Time Deposits	U. S. Govt. Sec.
‡1945	182.0	225.3	87.4	48.2	89.7	123.8	48.0	26.5	49.3
1944	198.7	169.7	67.8	35.0	66.9	85.4	34.1	17.6	33.7
1943	187.8	130.9	57.6	29.6	43.7	69.7	30.7	15.8	23.3
1942	151.5	90.3	41.1	26.5	22.7	59.6	27.1	17.5	15.0
1941	120.5	74.2	33.9	27.1	13.2	61.6	28.1	22.5	11.0
1940	97.1	67.6	28.9	26.7	12.0	69.6	29.8	27.5	12.4
1932	55.4	51.0	17.1	24.8	9.1	92.1	30.9	44.8	16.4
1929	99.4	60.7	22.1	28.6	10.0	61.1	22.2	28.8	10.1
1921	70.7	52.9	17.5	16.6	13.8	74.8	24.8	23.5	26.6

†Holdings as of June 30. Commercial banks, savings banks and insurance companies are excluded.

‡GNP is tentatively estimated annual rate for end of year and liquid asset figures are for Dec. 31.

For further details see Federal Reserve Bulletin for February, 1946, p. 122.

Mr. Wason's Interpretation

Even if Mr. Wason's residual of $17 billion were accepted, there would be no reason for complacency. It is still twice the corresponding 1939 figure and sufficient, if expended rapidly, to touch off inflation. An analysis of the liquid asset figures in itself does not mean much unless it is related to the abnormal economic situation with which we are confronted at this time when, as a result of the war, demand is far in excess of supply. It is obvious that in urban and farm real estate, in security markets and in other areas not subject to price controls, prices have sharply advanced.

Because of the abnormality of the present situation, a sharp distinction must be drawn between the economic significance of these liquid assets in the current setting and their likely effect later on when the economy has returned to a more normal situation. At such a time the liquid assets may well be helpful in maintaining adequate demand and high employment. In the present situation, if expended prematurely, they would have disastrous inflationary consequences.

It is true, of course, that inflation is caused not by the existence of liquid assets but by their use to bid up prices. It is difficult to say to what extent they have been thus used to date, but it is a fact that there has been a sharp reduction in the rate of saving. Personal savings as a percentage of disposable income which had reached 30% in the second quarter of 1945 are now less than 20% and may decline still further in the course of the year. This tendency should not be accelerated by raising expectations that those who do not buy now will have to pay higher prices later on. Such a development would be invited by a weakening of OPA controls.

Mr. Wason is correct in pointing out that the use of liquid assets for purchases does not of itself reduce the total volume of such assets. If individuals or businesses draw on their liquid assets to finance purchases, the result is merely a shift of funds from the buyer to the seller. The volume of liquid assets can be reduced only to the extent that Government debt is paid off out of tax receipts or securities are sold by commercial banks to nonbank investors. Mr. Wason is therefore right in emphasizing the need for a balanced budget and contending that liquid assets cannot be absorbed by increased production.

It does not follow, however, that because large liquid assets will continue to exist, it will also be necessary to retain OPA price controls indefinitely. Inflationary pressures at this time result from the fact that there are large backlog as well as current demands while the supply of goods in many lines is inadequate and cannot become adequate in a few months because production and distribution in sufficient volume take time. Once goods become available in ample supply to satisfy current demand and the most urgent backlog demand has been met, the excessive pressures from buyers will be reduced and at the same time competition among sellers will be increased. When this happens, price controls can be removed safely even though liquid asset holdings remain large.

Broker-Dealer Personnel Items

(Special to THE FINANCIAL CHRONICLE)

DAVENPORT, IOWA—**John M. Beyer** has rejoined the staff of **Quail & Co.**, Davenport Bank Building, after serving in the U. S. Navy.

(Special to THE FINANCIAL CHRONICLE)

DETROIT, MICH.—**Russell A. Thomson** has become a affiliated with **C. G. McDonald & Company**, Guardian Building. Mr. Thomas was previously with the War Department.

(Special to THE FINANCIAL CHRONICLE)

GRAND RAPIDS, Mich.—**John D. MacNaughton, Jr.**, has become associated with **MacNaughton-Greenawalt & Co.**, Michigan Trust Building. He was formerly in the U. S. Army.

(Special to THE FINANCIAL CHRONICLE)

INDIANAPOLIS, IND.—**Woodrow C. Moyer** is with **Merrill Lynch, Pierce, Fenner & Beane**, Circle Tower.

(Special to THE FINANCIAL CHRONICLE)

INDIANAPOLIS, IND.—**Lewis B. Shultz** is with **Ferd A. Meyer**, 8 East Market Street.

(Special to THE FINANCIAL CHRONICLE)

INDIANAPOLIS, IND.—**Will J. Goodwin** has been added to the staff of **Slayton & Co., Inc.**, Circle Tower.

(Special to THE FINANCIAL CHRONICLE)

KANSAS CITY, MO.—**Bernard A. Burton** has been added to the staff of **Slayton & Co., Inc.**, 111 North Fourth Street, St. Louis, Mo.

(Special to THE FINANCIAL CHRONICLE)

LAKELAND, FLA.—**Walter M. Ruby** is with **Cohu & Torrey**, Polk Theatre Building.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—**Russell J. Hendrickson** is with **G. Brashears & Co.**, 510 South Spring Street.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—**Howard D. Hotchkiss** has been added to the staff of **Buckley Brothers**, 530 West Sixth Street.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—**Roy F. Holcomb** has become affiliated with **Edgerton, Wykoff & Co.**, 621 South Spring Street.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—**Max W. Schlutsmeyer** is with **Maxwell, Marshall & Co.**, 647 South Spring Street.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—**Ted C. Willson** is connected with **Mitchum, Tully & Co.**, 650 South Spring Street.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—**Eugene L. Gackle** and **Edwin C. Kahn** are with **Slayton & Company, Inc.**

(Special to THE FINANCIAL CHRONICLE)

MACON, GA.—**Lowell H. Barker** is with **Brown and Groover**, Bankers Insurance Building. He was formerly in the U. S. Army.

(Special to THE FINANCIAL CHRONICLE)

NEW ORLEANS, LA.—**Dorothy R. Henderson** and **J. Thomas Whalen** are with **Weil & Co.**, Richards Building.

(Special to THE FINANCIAL CHRONICLE)

ORLANDO, FLA.—**Mrs. Ada M. Hamilton** is with **Southeastern Securities Corp.**, 304 West Adams Street, Jacksonville, Fla.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—**Lee E. Barnes** has been added to the staff of **Witherspoon & Company, Inc.**, 215 West Seventh Street.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—**L. G. Halverson** is with **Dean Witter & Co.**, 634 South Spring Street.

(Special to THE FINANCIAL CHRONICLE)

OAKLAND, CALIF.—**John W. Hann** is connected with **Mason Brothers**, Central Bank Building.

(Special to THE FINANCIAL CHRONICLE)

OAKLAND, CALIF. — **Richard T. Hamilton** has rejoined the staff of **Stephenson, Leydecker & Co.**, 1404 Franklin Street.

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