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Price Trends

By MELCHIOR PALYI

Dr. Palyi points out that an inflationary boom is slowly rising due to increase in money supply, its increased velocity through spending and the shortages of certain commodities. Holds rising prices of scarce goods affect similarly prices of non-scarce goods through substitutions, and that natural bottlenecks are intensified by artificial bottlenecks such as Government controls. Predicts, however, that prices cannot rise in astronomical fashion, though a much higher price level is in store.

The inflationary boom is rising slowly but surely. In spite of the fact that in the current fiscal year the deficit is slashed by $25-odd billions — the budget is actually balanced in the first three months of the year — paid-out national income is flowing approximately at the highest war-time level. Within half a year, curtailment of military expenditure's, strikes and shortages have brought the physical volume of industrial production down by one-quarter or more; but civilian spending took no notice, so to speak, of this violent change which normally would have reversed the cycle. Nor has the reduction of the national debt by a few billions any appreciable effect. Practically month for month, department store sales top by 5% or so their records of the previous year (furniture sales by 30%). Instead of the officially predicted 6 and 8 millions, the num-

Dr. Melchior Palyi

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Political Issues Engulf UN

By A. WILFRED MAY

Security Council functions as sounding-board for propaganda and as tool of power politics. Widening of rift between Big Three revealed in controversies over Iran and Franco. Proposed intervention in Spain motivated by Communist ideological and political aggression.

HUNTER COLLEGE, N. Y., April 17—Coincidentally reflecting the lineup in the game of power politics being ever more intensively played here is the change in the seating arrangement at the Council table put into effect today. As a result of the rotation in the Presidency, Messrs. Gromyko of Russia and Lange of Poland are seated together at the extreme left, with the "U. S.-British team" of Stettinius and Cadogan holding down the right end.

A. Wilfred May

This changed seating was accompanied by a new technique in performance, in that the two real protagonists of the Spanish question, Britain and Russia, were heard exclusively through mouthpieces in the persons of Mr. Stettinius and Dr. Lange of Poland. Sir Alexander Cadogan uttered not a word, and Mr. Gromyko was entirely mute during the session excepting for the rather pointed question as to why the Council could not meet on Good Friday.

The sharply widening rift between the Big Three is being constantly more keenly evidenced not only in the openly-aired diplomatic squabbles about Iran and Spain, but in "behind the curtain" maneuverings. An example of the latter is the reported exercise of Moscow duress on the Teheran government, which has made the Iranians' behavior here ostensibly so unreliable.

President Truman's remark that the anti-Franco agitation by Communist Poland has a political motivation, highlights the existence of that impression among many observers here. They feel that Moscow is trying adroitly to utilize the UN for her own interests in extending both her political power and her ideology westward to the shores of the Atlantic.

After yesterday afternoon's interlude called to permit the delegates to attend the baseball game, they today got around to giving attention to Spain's allegedly crucial threat to the world's peace. Dr. Lange's plea largely professed to be based on Franco's war-time sympathies with, and on her help to, the Axis powers. He demonstrated his argument by quoting from numerous chummy

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Needed: Reconversion in Thought and Action

By EMIL SCHRAM*
President of the New York Stock Exchange

Noting that war psychology is still on, Mr. Schram calls for reconversion in thought as well as in material production. Sees urgent problem in management of National debt. Attacks low interest rate policy, and monetizing of debt through large bank holdings of Treasury bonds. Holds best inflation weapon is getting public to absorb war bonds, but holds it can be done only by affording higher yields. Urges more equity financing and decries regulations that tend to reduce liquidity of security holdings.

Emil Schram

Swept along as we are today in an onrush of events—domestic and foreign—it is difficult to keep a correct perspective on the current history-in-the-making of which we are a part.

We find ourselves talking of the postwar world, as though it were something still distant from us. True, the clerks in our retail stores may no longer say, "Don't you know there's a war on?"; but the psychology reflected in that odious expression still seems to be with us, in many respects at least.

While America's mighty machine of mass production is in the process of reconversion—too slowly in some parts of our economy, gratifyingly rapid in others—the minds that direct that machine are too often out of step with the times.

While we reconvert our machine tools, our lathes, stamping presses and machines that they may produce, not swords, but plow-

*An address by Mr. Schram before the St. Louis Chamber of Commerce, St. Louis, Mo., April 12, 1946.

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The Business Outlook

By HOWARD R. BOWEN*

Economist, Irving Trust Company, New York City

Dr. Bowen divides the economic future into three periods, viz: (1) Transition period ending in 1946; (2) the catching-up period ending in 1948-49 and (3) the longer run period, extending beyond 1950. For the first period he predicts a gross national product near the capacity rate of $170 billions; for the second period (1946-50) he forecasts a slight rise followed by a decline of national product to $145-$165 billions. Cautions that conclusions are "in the realm of opinions and judgments," and that there are unpredictable factors which may alter deductions.

Today America expects, and is preparing for, a period of intense business activity. Consumers, armed with ample purchasing power are waiting impatiently for the promised abundance of postwar products. Foreigners are clamoring for our goods. Businesses, anticipating a lush market, are rapidly preparing for large-scale production. Confidence prevails. One can sense a return of that buoyant optimism which has been an outstanding characteristic of the American people. Even the temporary wave of serious unemployment which, it was predicted, would follow the end of the war has not materialized. Up to now, unemployment has not reached three millions.

Howard R. Bowen

has been an outstanding characteristic of the American people. Even the temporary wave of serious unemployment which, it was predicted, would follow the end of

*An address by Dr. Bowen before Savings Bank Bond Men of New York, New York City, April 10, 1946.

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Wages and Prices

By HENRY HAZLITT*

Member, Editorial Board of New York "Times"

Economist upholds "Austrian" view that wages are determined by prices. Asserts current Federal wage-price policy will wipe out profits of marginal firms, disorganize production and create unemployment. Terms it a delusion to imagine wages can be raised by some overall percentage without affecting prices. Contends our monetary inflation combined with goods shortages makes wage-price spiral possible and that hence inflation must be combated by dealing with the monetary cause—and not through wage and price ceilings.

The subject of my address has been set down on this program as "Wages and Prices." That subject is so broad, and has so many aspects, that it could well be the subject of a whole book. In a short talk of this kind, I am compelled to confine myself arbitrarily to only a few of the problems involved in the relationship of wages to prices.

Henry Hazlitt

I shall be obliged, to begin with, for example, to take certain basic principles for granted, without presenting the arguments for them. And though they are quite traditional principles, it may be helpful if I begin by at least confessing what they are. In the view of Ricardo and his disciples, prices were determined by wages. More broadly, prices were thought to be determined by all costs of production, but costs of production were thought of as consisting ultimately of costs of labor. The "Austrian" school reversed this view. It held that prices were determined by marginal utility and that wages were determined by prices.

Endorses "Austrian" Concept

Such short statements enormously oversimplify the problem; but I may indicate here that my own analysis is based on the so-called "Austrian" view. The value of the product determines the value of the elements that go to make up the product. The case is likely to be clearest if we assume a free economy and take, for example, the salaries of motion picture actors. Why does X draw a salary of $200,000 a year, while Y, who plays supporting roles, gets only $50,000, and Z, an extra, gets only $5,000? Most people recognize immediately in this case that it is because X has the biggest "box-office appeal." More people will pay more money to see him in a picture than will pay to see Y or Z. The producing company can afford to pay X his high salary because it can sell its picture for more to exhibitors; they in turn can afford to pay more for the picture because they know that a larger public will pay to see it. It is because they know (or believe) that the public is ultimately going to pay it that the producers are ready to "advance" X this salary, on the same principle that a publisher "advances" a promising author part of his expected royalties. X's salary, in short, depends upon, and is derived from, what he contributes to the total value of the product. It is what the picture sells for that determines what X is worth.

It is so, in the last analysis, with all other salaries and wages. The value of the workers' services is derived from the value of the products they help to create. This is the doctrine and the meaning of productivity.

In other words, wages are not low in China and high in the United States because Chinese employers are niggardly or American employers generous. Wages are not low in China because the Chinese employer "follows a low-wage policy" or higher in the United States because the American employer "follows a higher

*An address by Mr. Hazlitt before the Academy of Political Science, April 11, 1946.

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New Issues -- Realism or Theory?

SEC's proposed rule to prohibit "insiders" in dealer firms from participating in new stock flotations would hinder sale securities of big corporations and close capital markets to small ones.

The contention of the Securities and Exchange Commission that in many cases insiders profit by their participation in fast-moving new issues is valid. It is also a fact that as a consequence thereof, in certain instances, the general public is unable to secure as many shares of these issues at the original offering price as would otherwise be the case. But it does not follow that it is wise for the Commission to do anything about it. **In fact it seems quite obvious that the SEC's suggested remedy will be worse than the ailment itself.**

If we look at the entire subject of new issues and the current wave of underwritings from a realistic and practical viewpoint, here are some important factors that must be considered. The main reason that many of the larger, and most of the smaller issues of lesser-known companies, have been successfully marketed during recent months is that a favorable public attitude regarding STOCK SPECULATION has once again reasserted itself. The emphasis is now on speculation, NOT INVESTMENT. As a matter of fact, some companies that have gone to the public for funds in the recent past have little or no record of past performance and their future is in the laps of the Gods. Any security dealer who offered newly created stocks in this and other categories to his customers in the last six months would have to admit (if he were honest about it) that in many instances he could have selected any number of old, seasoned stocks that offered better speculative opportunities.

Why, then, were the new issues successful? As we have said, the public is in a highly speculative frame of mind

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Monetary Reconstruction In Continental Europe

By DR. FRED H. KLOPSTOCK*

Economist—Foreign Research Division, Federal Reserve Bank of N. Y.

Economist holds European wartime price controls generally were successful, but owing to production difficulties, monetary problems are far more acute on Continent than in U. S. Dr. Klopstock describes the currency-reduction and freezing methods pursued in Belgium, Yugoslavia, Denmark, Norway, Holland, Czechoslovakia, Austria and Finland. Declares German monetary situation has deteriorated alarmingly, and Hungary and Rumania are suffering hyper-inflation. Concludes monetary reconstruction in Balkan countries will depend largely on rebuilding plant and equipment, transportation and other non-monetary elements.

One of the most encouraging features of economic rehabilitation in Europe is the large measure of success achieved by a number of nations in their fight against inflation. Several countries, notably in Western and Northern Europe, by employing novel counter-inflation techniques have attained a high degree of monetary stability, and some nations have actually been able to bring about a price decline. But European monetary and financial conditions in the spring of 1946 do not conform to any uniform pattern. Certain nations, particularly in Southeastern Europe, have traveled a long distance along the road to monetary disintegration and show little promise in checking runaway prices. One country, Hungary, has only recently been overtaken by monetary chaos with the pengoe dropping to an infinitesimal fraction

Fred H. Klopstock

*The statements contained in this article represent the personal opinions of the writer and do not necessarily reflect the views of the institution with which he is connected.

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SEC Would Prohibit Allotments Of New Issues to "Insiders"

Characterizes as contrary to accepted business ethics, practice of underwriters and dealers allotting shares to partners and key employees and of retaining shares for firm's investment account. Proposes a new rule to put such practices within the scope of "fraudulent, deceptive and manipulative acts."

The Securities and Exchange Commission on April 16 issued a release in which it calls attention to dealers' distributing practices in new issues, which results in such issues selling substantially above the offering price specified in the prospectus. To curb such practices, the Trading and Exchange Division of the SEC proposes a new rule to place such practices in the category of "fraudulent, deceptive and manipulative acts."

The text of the Commission's release and the proposed new rule (X-15C2-3) follows:

"It has been observed that recently a number of common stock issues registered with this Commission under the Securities Act of 1933 have sold substantially above the offering price specified in the prospectus almost immediately after the commencement of the distribution. The Commission caused its staff to make a study of the distribution practices followed in these offerings to ascertain the facts and reasons bringing about this situation.

"The study to date discloses the following: (1) On the initial public offering date certain underwriters and selling group members have placed a substantial number of shares

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Price Control and the Trading Load

By JOHN HOWARD

Benguet Ohio offering and withdrawal emphasizes trading load. Registration requirements increasingly onerous. Attempts to control spreads and profits opposed. Lack of regulatory uniformity decried. Uniform laws prohibiting control of spreads and profits advocated. Non-interference with freedom in selection of portfolio suggested.

The controversy centering around the application to register shares of the Benguet Consolidated Mining Company in Ohio has again alerted the securities field.

Within a short interim two similar yet contrasting offerings have served to emphasize the pitfalls inherent in any attempt to control spreads and profits.

One of these was the Kaiser-Fraser transaction, which was a primary offering in two instalments of the same security, the last of which, due to public demand, grossed many millions of dollars more than the first, and found the same stock, with no different security behind it, being offered at twice the price of the initial sales.

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A National Labor Policy

By DONALD R. RICHBERG*

Mr. Richberg criticizes lawmakers for "cowering before labor bullies," and for making unions "the spoiled children of our national household." Denying an absolute right to strike, urges legal definition of legitimate union objectives. Terming monopoly more menacing in labor than in business, recommends that former likewise be regulated for benefit of interstate commerce.

The American Government has been brayed in a mortar by labor organizations ever since V-J Day, but, to complete the biblical metaphor, its foolishness has not departed from it!

Donald R. Richberg

A major reason for having a government is, in the language of the Constitution, "to insure domestic tranquillity," which presumably means: to preserve peace and good order. A government is no longer respectable which sits idly by, twiddling its political fingers while organized mobs intimidate and oppress its citizens. Our lawmakers and enforcers have been entrusted with adequate constitutional powers to protect the health, safety and general welfare of their communities; and when they cower before labor bullies who threaten to deprive cities, States, and even the nation of the necessities of life, disrespect for politicians rises to a record high!

The Historical Background of Labor Coddling

For many years it has been the vaguely defined policy of the Federal Government, and of a majority of State governments, to regard industrial wage earners as a peculiarly helpless and particularly deserving class of citizens. It has seemed necesary to favor them with privileges and immunities not granted to the rest of the people, to encourage them to organize for self-help, and to endow their organizations with exceptional powers of aggression and defense against conflicting interests. Labor unions have now become the spoiled children of our national household.

There was an historical justification for this coddling policy in the decades when our industrial civilization was unfolding, with its manifold blessings and evils. When huge numbers of immigrants were pouring into industrial centers, seeking employment and accustomed to a low standard of living, the wages and working conditions offered to a host of workers did not measure up to any reasonable standard of social justice. In that era the conviction spread that, through labor unions and collective bargaining, the wage earners could obtain the power to improve their own conditions, and to keep labor free from both private oppression and governmental paternalism.

The bargaining powers of the labor unions were steadily in-

*An address by Mr. Richberg before Academy of Political Science, New York City, April 11, 1946. Mr. Richberg is a member of the law firm of Davies, Richberg, Beebe, Busich & Richardson, Washington, D. C.

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Importance of Economic Relations to World Peace

By WILLIAM L. CLAYTON*

Assistant Secretary of State for Economic Affairs

Mr. Clayton cites as the bases of our foreign economic policy (1) equal treatment for all nations, with free access to raw materials, to eliminate international political friction; (2) abolition of the pre-war restrictions that "hobbled" world trade, and the affirmative stimulation of international commerce and of prosperity as a direct bulwark of peace; and (3) worldwide promotion of free institutions to end war. Pleads for our extension of food, goods, and credits to distressed nations; and particularly for consummation of the Anglo-American financial agreement.

Any examination of the importance of international economic relations to world peace is at the same time an examination of the foreign economic policy of the United States. The success or failure of that policy will, in the last analysis, be measured by our contribution to the safeguarding of the peace.

William L. Clayton

The foreign economic relations of the United States cover a very wide range of problems. Each new problem presses so closely on the heels of its predecessor that there is little space between for reflection.

Nevertheless, day to day decisions must fit into a broad policy pattern and must contribute to the attainment of our ultimate purpose. Not only must we know where we want to go but we must have a good idea of how we intend to get there.

Clearly, the evaluation of economic policy in terms of its bearing on the maintenance of peace cannot proceed far in the absence of at least a rough analytical framework. Perhaps such a framework can be outlined very briefly in three propositions.

The Bases of Our Economic Policy

We in the Department of State believe, first, that foreign economic policies which give effect to the principle of equal treatment for all nations will tend to eliminate some of the important causes of international friction and ill-will and will thus tend to strengthen the peace.

Secondly, we believe that the adoption of wise and far-sighted economic policies will stimulate world trade and prosperity, and that prosperity itself is a direct bulwark of peace.

Third, and most important, we believe that a wise economic policy will contribute to prosperity, that prosperity is the most congenial economic atmosphere for the growth and spread of democracy and the institutions of freedom, and that the peace is safest in the hands of free men.

Let us now take up these propositions in order.

The Evils of Discrimination

The first of these is the proposition that discriminatory economic policies can undermine friendly relations between states and weaken the structure of peace. Discrimination in this sense can take a multitude of forms. It can include preferential tariff systems, favoritism in the allocation of import quotas, or the

*An address by Secretary Clayton before the Academy of Political Science, April 11, 1946.

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Retaining Price Control The Best Choice

By CHESTER BOWLES*
Director, Office of Economic Stabilization

Mr. Bowles, asserting that in a choice between continued price control and abandonment of control, nation stands at one of greatest crossroads in its history. Cites data showing success of control policy and contends that continuation of program is needed because current demand for civilian goods far exceeds current supply. Answers arguments of NAM urging decontrol, and holds inflation will mark discontinuance of price control because, (1) potential increase in production not enough to convince public prices will not rise; (2) rising prices, by increasing costs will cripple production; (3) expected rising prices will lead to withholding of materials and parts, and (4) rising prices will lead to strikes.

I open the Government's presentation on this bill with the sense that the issues involved can be compared, in magnitude and urgency, only with issues of international peace and security.

Chester Bowles

The action which Congress takes on this bill will in my judgment affect the whole course of our domestic economy for years to come. It cannot fail to affect also the economy of other nations and the world economy.

Our people are watching to see whether or not their Government really means business in holding down the cost of living.

Our three million businessmen are watching to see if a weakened price control act will further increase their costs of production.

Our six million farmers are watching to see if we are to indulge in another post-war gamble with inflation such as caused 450,000 farm foreclosures after World War I.

Our 17 million industrial workers are watching to see if the present balance between wages and prices is to be maintained or abandoned.

Our 12 million or more of white collar workers and people living on fixed incomes are watching to see if they are to be squeezed again between rising rents and prices and relatively stable incomes.

Speculators by the thousands are watching for the first signs of legislative weakness on a program which Congress has steadfastly maintained against tremendous pressure for four weary, difficult war-torn years.

We stand today at one of the great crossroads of our country's history. On the one hand is the

*Statement by Mr. Bowles before the Senate Banking and Currency Committee on the extension of the stabilization laws, April 16, 1946.

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Controls Cripple Production

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

Contending that every important price regulation has worked in reverse and resulted in forced price increases, cheapening quality and withholding of goods, Mr. Seidel asserts "our Government is doing a grand job of promoting inflation." Refutes OPA statement that it is not hampering production and is speedily handling pricing problems and says when consumers are forced into abnormally high price ranges, retailers' profits increase. Cites examples of price increases and quality deterioration in wearing apparel and other products. Lists suggested amendments to OPA powers.

The recent hearings of the Banking and Currency Committee of the House of Representatives clearly indicate why it is necessary that Congress restrict the activities of the Office of Price Administration.

Robert A. Seidel

For seven long weeks this Committee listened to complaints from hundreds of witnesses representing all branches of industry, from practically every section of the country.

The testimony of these witnesses, well documented and unassailable, established one point beyond any question of doubt—OPA is throttling industrial activity throughout the country.

The road to all-out production is still well jammed up, and it is obvious that the stupidity and incompetence of the Office of Price Administration is costing American consumers billions of dollars per year.

Practically every important regulation that has been issued has worked in REVERSE, and the end result has been forced price increases, cheapening of quality, and disappearance of goods, thus severely penalizing consumers by compelling them to purchase substitute deteriorated goods in price ranges much higher than those in which they would normally buy.

Regulations become more and more complicated as time goes on. Now we have another unworkable prize package, "The Wage-Price Program," containing devious and more complicated methods of curtailing production, squeezing

*An address by Mr. Seidel before the Eastern Spring Conference of the Controllers Institute of America, April 15, 1946.

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Keane With Paul Speer

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Robert E. Keane has become associated with Paul D. Speer & Co., 610 South Broadway. He was formerly with Nelson Douglass & Co., Searl-Merrick Company and Laswell & Co. In the past he was an officer of Edgerton, Riley & Walter.

H. V. Britton Opens

H. V. Britton is conducting a securities business from offices at 335 West Seventy-sixth Street, New York City.

Harry Burr in Buffalo

BUFFALO, N. Y.—Harry B. Burr has opened offices at 9 Niagara Street, from which he will conduct an investment business.

The Interest Rate Dilemma

Dr. L. Albert Hahn urges need for raising rediscount rates as inflation check. Sees lifting Government bond yields advisable secondary step.

Editor, "Commercial and Financial Chronicle":

As time goes on the inflationary character of our economy becomes more and more apparent. Inflation means that the quantity of money going to markets increases.

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

Discount policy — besides balancing the budget — has been considered as the classical method to combat inflation. Correctly so. For the expansion of the purchasing power in an economy, in whatever form it occurs, is dependent on the money-issuing agencies delivering to the banks and the public the necessary amounts of paper money.

The obvious and most natural method of checking inflation therefore is to render the withdrawal of money from the Federal Reserve System more difficult and more expensive.

In spite of this a large number of experts and especially the Secretary of the Treasury seem to consider the application of the classical and traditional discount policy as quite out of the question.

In an article published in the "Commercial and Financial Chronicle," Dec. 7, 1945 I have tried to show why the arguments advanced in defense of a continued easy money policy do not seem

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The CPA's Objective

By JOHN D. SMALL*
Civilian Production Administrator

Citing a "Ravenous Purchasing Public" as a reason for maintaining civilian controls, Mr. Small contends that only about $2 billions worth of commercial building has been cut out and that no rigid criteria or arbitrary yardstick is adhered to in judging building applications. Points to newsprint industry, trucks, and tires as examples of removing controls when the objective of getting production into high gear has been attained, and reiterates the value of controls as a means of avoiding disastrous inflation.

I am glad to be able to talk to you today because I know how interested you are in the many problems that confront our country today. One of the problems is the question of priority and allocation controls — how long they are likely to last, and how they may affect your business. I am going to try to give you a general picture of how the Civilian Production Administration operates, and then I am going to try to tell you what the outlook is in the fields with which magazine and newspaper distributors are especially concerned.

J. D. Small

Present-day problems are steadily growing more complex. Seldom do we have a problem that is clearly and completely within the province of a single government agency; usually the difficulties will cut across our borders and involve several agencies. The production problem, in which the Civilian Production Administration is primarily concerned, is often very directly related to the price problem, which is the Office of Price Administration's bailiwick, or to the wage problem. The officials of the various agencies are fully aware of this kind of interrelation; they know that no problem can be isolated and considered solely by one agency without reference to what other agencies are doing. Nevertheless, in the remarks I shall make today I am going to speak primarily from the point of view of the CPA, emphasizing that CPA's policy is to cooperate to the fullest with industry and with all agencies interested in the same problem.

Boiling it down, you might say that the CPA was concerned, in a general way, with helping industry get back quickly to full production and full employment. Looking at the immediate picture, we know that there simply isn't enough of everything for everybody. So, for the time being, in the case of a relatively few things which are most urgently needed for the health and welfare of the greatest number of persons, CPA has to see to it that first things do come first.

Let me emphasize that we do not believe that our goal is the

*An address by Mr. Small before the Atlantic Coast Independent Distributors Association, New York City, April 11, 1946.

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Lanston Asks Correction Be Made

Points out that the "Chronicle" erred in stating that he advocated that commercial banks be required to invest part of deposits in non-marketable Treasury securities and that reserve requirements be increased and secured by short-term Treasury securities.

In an article on "Debt Management and the Controlled Interest Rate," by Aubrey G. Lanston, Vice-President of the First Boston Corporation, appearing on the first page of the "Chronicle" of April 11, it was stated in the editorial summary that the author "advocates that commercial banks should be required to invest a part of deposits in special non-marketable Treasury issues or that reserve requirements be increased and secured by short-term Treasury securities." Actually, Mr. Lanston merely cited these proposals as among those which have been advanced in other quarters as remedies for solving the public debt problem.

A. G. Lanston

In a letter to the "Chronicle" calling attention to the erroneous interpretation placed on his remarks, Mr. Lanston states as follows: "If you will turn to page 1959 ["Chronicle" of April 11] you will find that I classified specific remedies into three groups and then I classified the results three ways and I specifically stated shortly thereafter that the specific suggestions either fail to adequately consider the problem or devote themselves to living with a situation which is untenable. I definitely do NOT advocate either of the things which your short summary claimed I did advocate."

Some Trends in Art of Estate Planning

By MAYO A. SHATTUCK*
Hausserman, Davison & Shattuck, Boston

Mr. Shattuck describes defects of old "boiler plate" days of estate planning as (1) the lack of discretionary rights to use, apply or expend principal for any beneficiary; (2) the division of trust into fixed shares; (3) passing of the share of a deceased son of the grantor to his surviving issue; (4) restriction of management powers of trustees; (5) lack of provision for successor trustees; and (6) neglect to divide duties among a board or among several trustees. Holds these defects are being remedied in the art of designing estate planning instruments, which have in view elasticity and liberality, and that chief aim in creating trusts is no longer tax avoidance but provision of dollars from which taxes must be paid. Favors life insurance in estate planning.

When my partner and I are beaten two sets out of three in tennis but manage to win the third, and the curve seems to be rising as the afternoon comes to an end, we are apt to observe that the trend is what counts. This attitude, I submit, is the mark of a scholar if not a gentleman. A scholar is one who has a theory about the direction in which he is traveling even if he doesn't know the score at any given point.

Mayo A. Shattuck

For a good many years I have been playing at the game now euphemistically described as estate planning. In the old days it was known as drawing wills and trusts. By some rude persons it was described in those days as "legal hack work." It never really was quite that bad but it certainly didn't have the *imaginative* quality and fire which characterizes the estate planning of these days. For one thing it was much too standardized. In those days it was part of the equipment of every law office to maintain a boiler plate file. There might well have been contained in that file a form entitled "Standard will for a man who loves his wife but has no children," or "Standard will for a man who is doubtful whether he loves his wife and has two children," or "Standard will for a man who things he loves his wife but doesn't intend to take any chances and has one maiden aunt, one devoted nephew and a great love for Dartmouth College." When confronted by a gentleman who indicated those specifications you simply went to the legal stable, pulled out the one-horse shay, hooked it up to the adjective clauses that provide the motive power, took pains to see to it that the client was suitably confused by a description of the difference between *per stirpes* and *per capita*, dragged in three witnesses to complete the ceremony and called it a day. You almost never used the modern alterable, amendable and revocable living trust, of course, because you had a lively fear of the pitfalls of testamentary significance; you were justifiably afraid that you would end up with a voidable or void testamentary transaction. Besides, there weren't enough of those new fangled instruments to supply a form that anybody could rely upon. You didn't worry about insurance because it was only once in a dog's age that anybody had enough insurance to amount to more than a drop in the bucket and what little insurance there was was so tightly riveted together that you couldn't do much with it if you wanted to. As for taxes—there just weren't any substantial taxes except real estate and local property taxes and a few odds and ends of inheritance taxes, mostly on the local basis. A look at the boiler plate material showed you some things which I should like to enumerate briefly this afternoon by way of comparison with our modern techniques. This

(Continued on page 2112)

*An address by Mr. Shattuck before the N. Y. Chapter of the American Society of Chartered Life Underwriters, April 12, 1946.

The Search for Economic Security

By MARCUS NADLER*
Professor of Finance, New York University

Dr. Nadler points out that partly through legislation and partly through their own efforts, economic security of the people has increased materially. Says problems yet to be solved are (1) protection of savings of people and (2) prevention of large-scale and prolonged unemployment. Says danger of inflation is greater than generally believed and recommends end of deficit financing and a retention of high taxes. Sees also danger of large unemployment after "catch up" period unless necessary measures are taken to prevent it.

Introduction

Life insurance companies were established primarily to increase the economic security of individuals. Through insurance an individual can protect himself against want in old age or protect those near to him after the bread-winner is gone. Other types of life insurance protect the individual and his family against want caused by illness and accident. No other group, therefore, could be more interested in the problem of economic security than Life Underwriters.

Dr. Marcus Nadler

Not only do insurance companies offer protection to individuals and their families against the hazards of life—or death—but also they are the greatest savings institutions in the country. Thrift has always been their motto. At present when the purchasing power in the hands of the people is exceedingly great and exceeds the supply of available commodities thrift is necessary not merely for the protection of the individual but also for the protection of the economy as a whole. Through advocating thrift and by inducing people to hold spending at a minimum, the life insurance companies can contribute a great deal not merely to help many millions achieve economic security but also to protect them against the ravages of inflation which would greatly undermine our entire economic system.

The desire for economic security is world-wide, and the greater the industrialization of a nation, the more pronounced is this desire.

The severe depression of the early 1930's left a deep impression on all countries. On the Continent of Europe, unscrupulous leaders took advantage of this yearning for economic security and seized control over the economic and political body of the various nations. Personal liberties were destroyed and the powers of the state became all-embracing. Even in the United States, the principal capi-

(Continued on page 2114)

*An address by Dr. Nadler before the New York Chapter of American Society of Chartered Life Underwriters, New York City, April 12, 1946.

Robt. Doyle in Rochester

ROCHESTER, N. Y.—Robert C. Doyle has resumed the investment business under the name of Doyle Company, from offices in the Wilder Building. In the past he did business as an individual dealer in Rochester.

Assoc. Development Corp.

Associated Development & Research Corporation is engaging in the securities business from offices at 150 Broadway, New York City.

Controversy Over Utility Depreciation

E. Arnold Sunstrom, Comptroller of TVA, disputes conclusions in "Chronicle" paper, "Original Cost Techniques Threaten Utility Equities" by W. Truslow Hyde, Jr. Mr. Hyde Rebuts.

Editor "Commercial and Financial Chronicle":

Every so often a so-called security analyst wanders off his beaten path and crosses over into a field in which he is a novice at the best. Such is the case in the March 21, 1946, issue of your paper in an article written by a Mr. W. Truslow Hyde, Jr., Public Utility Analyst, Josephthal & Co.

The statement in his article that every qualified accountant will view with alarm and almost with what might be described as horror is Mr. Hyde's statement that "the function of depreciation is to recover from the consumer an amount sufficient to replace that part of the company's plant which is worn out in providing service." The process of recouping the dollars invested in plant, as advocated by certified public accountants, regulatory commissions, and private accountants, is known as depreciation accounting. The American Institute of Accountants defines depreciation accounting as follows:

"**Depreciation accounting** is a system of accounting which aims to distribute the cost or other basic value of tangible capital assets, less salvage (if any), over the estimated useful life of the unit (which may be a group of assets) in a systematic and rational manner. It is a process of allocation, not of valuation. **Depreciation for the year** is the portion of the total charge under such a system that is allocated to the year. Although the allocation may properly take into account occurrences during the year, it is not intended to be a measurement of the effect of all such occurrences."

Mr. Perry Mason in his monograph approved for publication in 1937 by the executive committee of the American Accounting Association wrote the following:

No logical connection between depreciation and replacements—Not only are the financial implications of the replacement doctrine of questionable validity, but there is no logical basis for such an approach to the subject. If it were the sole purpose of depreciation accounting to provide for the replacement of assets, logically there would be no depreciation to record if the asset were not to be replaced. The problem of depreciation arises because of the necessity of taking into account the fact that the investment in an asset has been reduced to scrap value at the time of its retirement from service in order to arrive at the net profit for the period or periods involved. It is the accounting for a past expenditure, not a provision for a future one. The relationship between depreciation and replacements is purely coincidental—most assets are replaced at the time of retirement.

The point may also be made that literal replacement in kind is a rare event. It is much more

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Public Utility Securities

Commonwealth & Southern

While the recent Supreme Court decision sustaining the constitutionality of the Utility Holding Company Act (in the case of North American Company—three other cases remain to be disposed of) may expedite holding company integration plans to some extent, it seems probable that some time may elapse before the Commonwealth & Southern plan is approved and consummated.

Like a number of other holding company plans, Commonwealth's has gone through a series of evolutionary changes, depending on the trend of the stock market and the pressure brought to bear by interested security holders. It will be recalled that the company started out with an 80-20% formula for dividing a new common stock between the preferred and common holders; under pressure from an organized group of preferred stockholders this was modified to 85-15%. But this was delayed and meanwhile some high estimates of portfolio values (based on rising markets and increased price-earnings ratios) made their appearance. While the management preserved a middle-of-the-road attitude so far as portfolio values were concerned, and SEC estimates were far below the figures reached by a leading valuation expert, a strong common stockholders' group was finally organized by Mr. Snyder of Philadelphia. While large corporate holders of the common stock did not give Mr. Snyder official support, he nevertheless did an excellent job of publicizing the claims of the common stock. Coincidentally or otherwise, the management and the SEC eventually agreed with Mr. Snyder that the old plan was outmoded.

The Commonwealth management then offered a modification of the 1943 plan, proposing that common stockholders be given five years in which to acquire the new common stock (to be trusteed) which preferred stockholders would receive under the old plan, the price being equivalent to preferred redemption value and accrued dividends. Thus the common could "buy out" the preferred and obtain the benefits of the higher portfolio value. Apparently the Commission felt this plan was unnecessarily complicated and slow, and it invited all interested parties to submit new plans. This has resulted in the filing of a new management plan and three others.

The new management plan recognizes the necessity of disposing of the Northern group of subsidiaries, either by sale or distribution, for geographic reasons. However, it would limit public sales to the two smaller companies, the Indiana and Illinois subsidiaries (they might be used for exchange tenders for preferred, however). In order to establish market values for the remainder of the portfolio, and to make it feasible to pay off preferred stockholders in a "package" of cash and stocks (rather than all cash) the company proposed "token" sales of Ohio Edison and Consumers Power stocks. Consumers would split its present stock 2-for-1 and sell 400-800,000 shares of additional stock—enough to yield a net amount of $20,000,000 which would be used for additions and betterments. Ohio Edison would sell 204,153 shares of "new money" stock. A new subholding company would be set up to control the southern subsidiaries and it would also make a public offering of $10,000,000 "new money" stock, passing the funds along to the Alabama, Georgia and South Carolina subsidiaries.

Three stocks would then constitute the Commonwealth portfolio and all three would have a market value resulting from the "token" sales. It is then proposed to distribute enough of the portfolio (using prevailing quotations as a basis for valuation) to the preferred stockholders to pay them off, either at par and arrears or redemption price and arrears (the latter only if necessary). The remainder would then go to the common stockholders; Commonwealth would turn over any leftover assets to the new southern holding company, and dissolve.

The management plan also provided for an optional pro-rata exchange method by which holders of both preferred and common could exchange substantial unit holdings (consisting of 250 shares of common and some 10 or 11 shares of preferred stock) for portfolio stocks. This provision appears to be somewhat complicated and perhaps needs clarification.

The Snyder group also proposed

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John George Forms Firm

(Special to THE FINANCIAL CHRONICLE)

TYLER, TEX.—John G. George has formed John G. George Investment Securities with offices in the Peoples Bank Building. Mr. George has recently been with the U. S. Treasury Department. In the past he was manager of the securities department for Sabine Royalty Corp.

Reilly Has Wire to Cayne

J. F. Reilly & Co., Inc., 40 Exchange Place, New York City, and 39 South La Salle Street, Chicago, Ill., announce the installation of a direct wire to Cayne & Co., Union Commerce Building, Cleveland, Ohio, members of the Cleveland Stock Exchange.

White Wire to Sills Minton

J. G. White & Company, Inc., 37 Wall Street, New York City, announces the installation of a private wire to the office of Sills, Minton & Company, Inc., 209 So. La Salle Street, Chicago 4, Ill.

Roy E. Nelson Forming Own Investment Firm

SPOKANE, WASH. — Roy E. Nelson has formed R. E. Nelson & Co. to conduct a securities business from offices at 4304 North Lincoln Street. Mr. Nelson prior to serving in the Army was a partner, and manager of the trading department, of Pennaluna & Co., Wallace, Idaho.

Irwin Guttag Joins Staff Of Kaufmann, Alsberg Co.

Richard K. Kaufmann, Alsberg & Co., 120 Broadway, New York City, members of the New York Stock and Curb Exchanges, announce that Irwin Guttag, formerly a Lieutenant USNR, is now associated with them. Mr. Guttag was formerly in charge of the Bond Department of Henry Guttag.

The UN and American Foreign Policy

By DR. ROBERT STRAUSZ-HUPE*
University of Pennsylvania

Asserting the United Nations' Charter is not vastly superior to that of League of Nations, Dr. Strausz-Hupe contends there is no guarantee that the UN will evolve into a world government. Holds nationalism has been strengthened, not weakened by the world wars and that economic equilibrium is less stable today than 35 years ago. Urges solution of our domestic problems as best means of meeting our obligation of international leadership.

It should be abundantly clear from the arid climate of world politics that the United Nations Organization—had it not been formed during a period of loyal Great Power collaboration against common enemies—could not be created now. This circumstance alone should cause well intentioned critics to pause and reflect not only upon the flaws of the Charter but also upon the miraculous compromise wrung from a uniquely favorable moment in human history, which fathered the new League.

Robert Strausz-Hupe

Usually, political compromise begets imperfect institutions. The Charter of San Francisco is not vastly superior to the Covenant of the League of Nations. This fact might have been accepted more calmly by the general public had not several influential groups, encouraged by official silence, endeavored to "sell" the new League to publicity-conscious multitudes as a Government of the World. UN is obviously no such thing. It is a voluntary association of sovereign nations. It is ostensibly based on the principle of the equality of nations. This principle, however, is qualified by the special privileges accorded to the five permanent members of the Security Council. The veto power insures that the machinery for the enforcement of sanctions against aggressors cannot be set in motion against the United States, the Soviet Union, Great Britain, China and France.

President Truman declared that American foreign policy henceforth will operate mainly through the United Nations Organization. This is a statement of purpose reflecting the faith in the perfectability of UN of the President and the American public. It is hoped that UN will evolve into a working world government.

UN Criticism Justified

The recent difficulties of UN afforded its critics the opportunity to demonstrate on the hand of concrete evidence what they had been hoping to demonstrate all along: the Great Powers are not ready to merge their independence in a supreme world authority. Our critics insist that a constitutional convention should be called forthwith. The Charter, they say, should be amended and a world government set up, a new and global sovereignty superior to all national sovereignties. There are several schools of thought as regards the method for attaining this goal and the degree of power the proposed world government is to possess. They are agreed, however, that mankind is confronted by an ineluctable decision: shall there be One World or None? Their arguments are reinforced by the evidence submitted concerning the vast potentialities of atomic energy used as a military weapon. "The only solution to the problem of the Bomb," Mr.

(Continued on page 2123)

*An address by Dr. Strausz-Hupe before the New York Chapter of the American Society of Chartered Life Underwriters, New York City, April 12, 1946.

Roger S. Palmer Opens Own Inv. Business

Roger S. Palmer has formed Roger S. Palmer Co. with offices at 43 Cedar Street, New York City, to engage in the securities business. Mr. Palmer was formerly with Reynolds & Co. Prior thereto he did business as Roger S. Palmer Co. and was with Granbery, Safford & Co. and Estabrook & Co.

Wek Capital Corp.

The Wek Capital Corporation is engaging in the securities business from offices at 130 West 42nd St., New York City.

Dealer-Broker Investment Recommendations and Literature

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

Banks—1946—Survey examining future possibilities of these stocks, including banking trends for 1946; data on 150 leading banks; prospects for increased bank business; favorable and unfavorable aspects for the banking industry as a whole—available on request from Department "T," Merrill Lynch, Pierce, Fenner & Beane, 70 Pine Street, New York 5, N. Y.

Business and Financial Conditions—Pamphlet report covering reviews of business and financial conditions—Hirsch & Co., 25 Broad Street, New York 4, N. Y.

Also a review of the **Chemical Industry** and an analysis of **Electric Power & Light Corp.** are available.

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.

"How Much More Inflation this Year?" — Searching discussion of the near-term inflation risks for men of substantial wealth, banks, insurance companies, investment trusts, endowed institutions, and corporations interested in safeguarding their funds — Copy of five-year survey — $3.00 — Clip advertisement elsewhere in this issue and send with check to department C-F, American Institute of Finance, 137 Newbury Street, Boston 16, Mass.

I. C. C. Measures Rise in Rail Wages — Summary of report — Vilas & Hickey, 49 Wall Street, New York 5, N. Y.

Leading Banks and Trust Companies of New York—56th Consecutive quarterly comparison — New York Hanseatic Corp., 120 Broadway, New York 5, N. Y.

New York City Bank Stocks—Comparison and analysis of 19 stocks for the first quarter of 1946—Laird, Bissell & Meeds, 120 Broadway, New York 5, N. Y.

"Outlook for World Copper and an Analysis of Rhodesian Selection Trust, Ltd."—Booklet—Model, Roland & Stone, 76 Beaver Street, New York 5, N. Y.

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 Bantam Car—Special report—Amos Treat & Co., 40 Wall Street, New York 5, N. Y.

Also available are reports on **Automatic Signal Corp.; Northern Engineering Works;** and **Van Dorn Iron Works.**

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

American Phenolic — Revised memorandum—Buckley Brothers, 1529 Walnut Street, Philadelphia 2, Pa.

Also available are memoranda on **Reda Pump Co.** and **Merchants Distilling.**

American Service Co.—Circular—Adams & Co., 231 South La Salle Street, Chicago 4, Ill.

Anglo California National Bank of San Francisco—Analytical report—Kaiser & Co., Russ Building, San Francisco 4, Calif.

Boston & Maine—Suggestion of interest to holders of the common stock—Amos Treat & Co., 40 Wall Street, New York 5, N. Y.

Bowser, Inc.—Analytical study—J. F. Reilly & Co., 40 Exchange Place, New York 5, N. Y.

Central Paper — Descriptive circular—Adams & Peck, 63 Wall Street, New York 5, N. Y.

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.**

Cunningham Drug Stores — Analysis—H. Hentz & Co., 60 Beaver Street, New York 4, N. Y.

Also available is a leaflet of research comment on **Mission Corp.** and **Hammermill Paper Co.**

L. A. Darling Co.—One company in four growth fields — Analysis for dealers only—Moreland & Co., Penobscot Building, Detroit 26, Mich.

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.**

Dwight Manufacturing Co. — Descriptive analysis—du Pont, Homsey Co., 31 Milk Street, Boston 9, Mass.

Eastern Gas & Fuel Associates—Analysis—Stern & Co., 120 Broadway, New York 5, N. Y.

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

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

Engineers Public Service Company—Memorandum—Seasongood & Haas, 63 Wall Street, New York 5, N. Y.

Flamingo Air Service, Inc. —Circular—Hoit, Rose & Troster, 74 Trinity Place, New York 6, 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.**

Grinnell Corp. — Memorandum —Boenning & Co., 1606 Walnut Street, Philadelphia 3, Pa.

Hammond Instrument Co. — Analysis—Caswell & Co., 120 South La Salle Street, Chicago 3, Ill.

Haskelite Manufacturing Corp. —Study firm pioneering in development of plywood and its uses—Amott, Baker & Co., Inc., 150 Broadway, New York 7, N. Y.

Kinney-Coastal Oil Company—Analysis—James M. Toolan & Co., 67 Wall Street, New York 5, N. Y.

Le Roi Company — Study of common stock as a sound speculative purchase — First Colony Corporation, 70 Pine Street, New York 5, N. Y. Special letters available on **Dumont Electric Corp. Princess Shops; Electronic Corp. District Theatres Corp.;** and **Simplicity Pattern.**

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

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

Longview Bridge Class "A" — Memorandum on interesting low-priced speculation—Grande & Co., Inc., Hoge Building, Seattle 4 Wash.

Merchants Distilling—Full details on producer of the popular "Southern Comfort" whiskies and spirits available from Blair F. Claybaugh & Co., 72 Wall Street New York 5, N. Y.

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.

National Gas & Electric Corp. —Late memorandum on a stock offering combination of improving utility income, together with excellent speculative possibilities from oil developments—Fred W. Fairman & Co., 208 South La Salle Street, Chicago 4, Ill.

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

Oil Exploration Company—Detailed memorandum—Ward & Co., 120 Broadway, New York 5, N. Y.

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

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

Scranton Spring Brook Water Co.—Analysis—Ira Haupt & Co., 111 Broadway, New York 6, N. Y.

Also available is a study of the **Middle West Corp.**

Simplex Paper Co.—Descriptive analysis discussion potential postwar benefits to the company from the automobile, building, and frozen food industries—Raymond & Co., 148 State Street, Boston 9, Mass.

Southern Natural Gas Company —Comments following a study of the Company's annual report—Graham, Parsons & Co., 14 Wall Street, New York 5, N. Y.

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

Sports Products, Inc.—Circular —Hardy & Hardy, 11 Broadway, New York 4, N. Y.

Suburban Propane Gas Corp. —Reprint of letter to stockholders—Scherck, Richter Company, Landreth Building, St. Louis 2, Mo.

Universal Zonolite Insulation—Analysis — Caswell & Co., 120 South La Salle Street, Chicago 3, Ill.

Walt Disney Productions—Special report—Maxwell, Marshall & Co., 647 South Spring Street, Los Angeles 14, Calif.

Weil & Co. Opens N.Y. Branch Under Young

Weil & Co., New Orleans investment firm, has opened a branch office at 52 Wall Street, New York City, under the management of Cecil P. Young. Mr. Young was previously Vice-President of the First Colony Corp. and prior thereto did business as an individual dealer.

NSTA Notes

NSTA CONVENTION SEPT 17-19

Edward H. Welch, Sincere & Co., Chicago, Chairman of the NSTA Convention Committee, has sent the following letter to members of the Association:

I have recently returned from Seattle where I conferred with the officers and directors of the Bond Traders Club of Seattle in regard to the convention of the NSTA which will be held September 17-18-19, 1946, at the Hotel Olympic, Seattle, Wash.

While it is too early to give you the detailed Convention Program, I can assure you that you cannot afford to miss the first convention of the NSTA that has been held since 1941.

Provisions have been made for several well-known speakers and a number of forums and other meetings have been planned. A complete program will be arranged for the ladies.

Ample time will be allowed for play and sightseeing. There will be a Salmon Fishing Tournament, also a Field Day and other interesting entertainment.

Arrangements have been made for a special train leaving Chicago on Saturday morning, Sept. 14, arriving in Seattle, Monday, Sept. 16. Following the convention, the "special" will return via Portland, San Francisco and Los Angeles where the Traders Clubs have made plans for our entertainment. The "special" will leave Los Angeles for Chicago on Friday, Sept. 27.

The "special" will be operated on an all-expense basis which will include rail, pullman, all hotels, also meals on the train and transfers between trains and hotels. The cost will be approximately $275 and $300 per person from Chicago to Seattle, returning via Los Angeles. There will be various types of pullman accommodations available and the cost will depend upon the kind of space desired. Reservations for the "special" may now be made with me and the definite cost and schedule will be announced shortly.

Those who do not intend to travel on the "special" should make their Seattle hotel reservations at once through Jack E. Jones, Hartley Rogers & Co., Seattle, Wash. Be sure to tell him the exact date of your arrival, the type of rooms desired, and your correct address and firm.

NSTA ADVERTISING COMMITTEE

The following letter is being sent to all members of the National Security Traders Association by the National Advertising Committee:

"Dear Fellow-Member:

"This year, we, the Advertising Committee of the NSTA, will publish at the September convention in Seattle a Year Book containing the entire roster and pictures of the members of our National Association. This should become a vital part of your trading organization and should acquaint the members with our entire membership.

"We must have the cooperation of the individual members in order to complete this gigantic undertaking.

"Mr. Herbert D. Seibert, publisher and editor of 'The Commercial and Financial Chronicle,' has been securing for the past several months rosters of all the various affiliates as well as pictures, and your committee would appreciate your immediate response to any correspondence you might receive from him direct, as well as a courteous interview to his photographers. This cooperation is necessary and we hope that our publication will be 100% complete. Your committee has been greatly enlarged this year and we are most pleased to name below the various regional chairmen:

Atlanta—J. F. Settle, J. H. Hilsman & Co., Inc.
Baltimore—R. Emmet Bradley, Mackubin, Legg & Co.
Boston—Harold Madary, Geyer & Co.
Chicago—Paul Yarrow, Clement, Curtis & Co.
Cincinnati—Clair Hall, Clair S. Hall & Co.
Cleveland—Richard Gottron, Gottron, Russell & Co.
Connecticut—George Dockham, Hincks Bros., Inc.
Dallas—William R. Newsom, Jr., Sanders & Newsom
Denver—Philip J. Clark, Amos C. Sudler & Co.
Deroit—Don W. Miller, McDonald-Moore & Co.
Florida—George M. McCleary, Florida Securities Co.
Houston—Edward Rotan, George V. Rotan & Co.
Kansas City—Arthur I. Webster, E. W. Price & Co.
Los Angeles—Donald E. Summerell, Wagenseller & Durst, Inc.
Louisville—J. Hugh Miller, J. J. B. Hilliard & Sons.
Memphis—F. D. Schas, Bullington-Schas & Co.
New Orleans—Jackson A. Hawley, Equitable Securities Corp.
New York—T. G. Horsfield, Wm. J. Mericka & Co.
Philadelphia—Alfred W. Tryder, W. H. Newbold's Son & Co.
Portland—Donald Sloan, Sloan & Wilcox.
St. Louis—Bert H. Horning, Stifel, Nicolaus & Co., Inc.
San Francisco—Ernest Blum, Brush, Slocum & Co.
Seattle—Howard W. Jones, Harris, Lamoreux & Norris, Inc.
Twin City—William Lau, Frank & Belden.

Last year, your National Advertising Committee produced approximately $7,000 for your NSTA treasury. This year with the publication of a picture-roster Year Book, the income should be double that of last year due to the value to the advertisers, bearing in mind that the edition itself will be a permanent record for all members of our entire membership.

Very truly yours,
HAROLD B. SMITH, Chairman,
National Advertising Committee.
ALFRED W. TRYDER, Vice-Chairman

Canadian and American Credits To Britain

By NORMAN CRUMP
Financial Editor, London "Sunday Times"

British financial commentator recounts proposed Canadian credit to Britain of $1,250 millions which is contingent on U. S. loan of $3,750 millions. Contends this combined credit will enable Britain to get back above her "dead center" and that Canadian grant will act as a bridge between the dollar and the sterling area. Looks for adherence of all members of sterling area to the Bretton Woods Monetary Fund and holds that having received ample Canadian-American long term credit, Britain will then be able to make full use of stabilizing resources of the Fund.

When the terms of the American Loan Agreement became known last December, it was clear that the amount of $3,750 millions of new money which Britain was to obtain represented the minimum of Britain's requirements for the post-war transition period. I remember that at that time I was less worried than most people were. I now know why my feelings of reassurance were justified, for as the result of discussions in Ottawa, Canada is to lend Britian the sum of 1,250 million Canadian dollars.

Norman Crump

The terms of the credit from Canada are in many respects the same as those of the American credit. Interest in both cases is to be at 2%, and in each case the waiver clause is the same. So, too, is the period of fifty years beginning in 1951, during which both interest and principal are to be repaid. On the other hand, as far as I am aware, there are no such stipulations regarding Britain's financial relations with the sterling area as are to be found in the American Loan Agreement.

This bare recital of detail does not detract from Canada's great gesture in making the loan. She is ready to find a sum equal to nearly one-third of what the United States is offering, in spite of the fact that Canada is nothing like one-third of the size of the United States in either population or wealth. Canadian dollars too will be of use to Britain in many ways. With them Britain can buy food and raw materials of many kinds, including grain, minerals and wood products. Even though Canadian and American dollars may not be completely interchangeable, there is no such exchange stringency between the two countries as exists between the United States and the sterling area. It is not much of an exaggeration to say that the new Canadian credit provides a bridge between the sterling and dollar areas.

Generous Terms

This is not the first time that Canada has come to Britain's financial aid. In 1941 she gave Britain a grant of 1,000 million Canadian dollars, and followed this up a year later with a temporarily interest-free loan of 750 million Canadian dollars. Nor is generosity lacking in the new agreement. It provides that the last-named loan is to remain free of interest for another five years and it cancels the debt of $425 millions due by Britain in respect of the British Commonwealth Air Training Scheme, which events showed to be one of the main causes of Britain's Air victories. All claims in respect to goods delivered by Canada to Britain since VJ-Day are settled for a payment of $150 millions.

The Canadian Agreement has been deliberately made contingent upon the ratification by Congress of the Anglo-American Agreement. It is a fair inference from what we in Britain know of Canada's generosity that what is really meant is that if the American Agreement breaks down Canada will wish to reopen matters in such a way as to take cognizance of the consequent vast increase in Britain's dollar needs.

Bretton Woods Inaugural Meeting

Meanwhile the inaugural meeting of those responsible for the

(Continued on page 2123)

Edward S. Jackson to Open Offices in N. Y.

Edward Schuyler Jackson will engage in the securities business from offices at 92 Liberty Street, New York City. He was formerly a partner in Jackson & Wreszin, C. H. Murphey & Co., and J. W. Sparks & Co. At one time he held membership in the New York Stock Exchange and was active as an individual floor broker.

Mahony in Los Angeles

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Vincent C. Mahony is engaging in the securities business from offices at 111 West Seventh Street.

Michigan Brevities

March sales on the Detroit Stock Exchange took a sharp drop from the two preceding months. Last month's total was 342,592, as against 644,728 in February and 956,984 in January.

Michigan Die Casting Company has been changed to Gerity-Michigan Die Casting Company, and Kroger Grocery & Baking Company to The Kroger Company, in the listings on the Detroit Stock Exchange.

* * *

Watling, Lerchen & Company headed a group offering of 150,000 shares of common stock, $2 par value, of American Metal Products Co. of Detroit, at $15 a share. All of the stock is issued and outstanding, having been purchased by the underwriters from a group of present stockholders. The offering represents about 35% of the total amount of stock outstanding.

McDonald-Moore & Co. purchased $15,000 Southfield Township, Oakland County, School District No. 8 bonds. Proceeds will be used for a new school addition.

Douglas Quack has been elected Treasurer of the First Federal Savings and Loan Association, Walter Gehrke, President announced. Mr. Quack was with the Federal Home Loan Bank Administration for nearly a decade.

* * *

Goebel Brewing Co. has purchased Grand Rapids Brewing Co. for $275,000, Edwin J. Anderson, President announced.

* * *

First of Michigan Corporation has purchased an issue of $120,000 Ecorse Township School District No. 9 (Allen Park) 1¼ and 1% bonds, maturing serially from 1947-1951 inclusive. Bonds maturing in 1947 carry a 1¼% coupon, the balance of the issue 1%. They were reoffered at prices ranging from a yield basis of 0.61% to 0.91%.

* * *

Stockholders of Wayne Screw Products Co. have approved a proposal increasing authorized capital stock from 100,000 shares, $4 par value, to 1,000,000 shares, $1 par value and a four for one stock split to present stockholders. The balance, 600,000 shares, will remain in the company's treasury. The split became effective April 15.

Chapin & Co. Detroit Stock Exchange Members

DETROIT, MICH.—The brokerage firm of Chapin & Co., Penobscot Building, has been admitted to membership on the Detroit Stock Exchange, governors of the Exchange announced. Roy F. Chapin, founder of the company, has been on Griswold Street for the past 25 years.

Security Traders Association of New York Special Issue of "STANY" on 10th Anniversary

The Security Traders Association of New York, Inc., is publishing a special 40-page edition of "STANY," the organization's magazine, commemorating the Tenth Anniversary Dinner to be held April 26 at the Waldorf-Astoria.

Copies of this number will be mailed early the week of the dinner to all members of the National Security Traders Association, of which STANY is an affiliate, and also to partners of many New York firms. Additional copies of the magazine, of which Alfred Tisch of Fitzgerald & Co. is Editor, and T. Geoffrey Horsfield of Wm. J. Mericka & Co., Associate Editor, may be obtained upon request to Mr. Horsfield who is also Secretary of the Association.


C. E. de Willers   Wm. A. Titus, Jr.


Michael J. Heaney   T. G. Horsfield

Two interesting technical articles will be included in the issue: "Insurance Stock" by George Geyer of Geyer & Co.; and "Permit Buying on Margin Equivalent Stock Purchase Warrants" by Richard D. Donchian of Shearson, Hammill & Co. Leslie Blasius of the New York Telephone Company contributed a special article entitled "Communications for a New America."

In addition to the regular column of humor and news "From Churchyard to the River" compiled by Elmer Meyers, B. W. Pizzini & Co., and B. Leslie Barbier, G. A. Saxton & Co., a special feature "West of the Hudson" containing items on out-of-town traders will also appear.

Poetry in the issue is contributed by Arnold J. Wechsler, L. J. Goldwater & Co.; Ray Kenney, C. E. de Willers, and Edwin I. Becker of Reynolds & Co.

Howard E. Phillips

In each issue of "STANY" thumbnail sketches are included of members of the Association in order to acquaint local and out-of-town traders with the members. Names are chosen by lot—in the current issue sketches are included of Ralph T. Dimpel of Edward A. Purcell & Co.; Murray L. Barysh, P. F. Fox & Co.; Edwin J. Markham, Wertheim & Co.; Norman C. Single, Dominion Securities Corp.; Frank Davis, Chas. E. Quincey & Co.; Benjamin Gold, Gold Brothers; Fred Eisele, Freeman & Co.; Fred W. Opitz, Roberts & Co.; Robert Mackie, Luckhurst & Co.; Robert J. Sullivan, Coburn & Middlebrook; and Richard F. Abbe, Van Tuyl & Abbe.

Officers of STANY are: Chester E. de Willers, C. E. de Willers & Co., President; William A. Titus, Jr., F. J. Young & Co., Inc., First Vice-President; Michael J. Heaney, Joseph McManus & Co., Second Vice-President; T. Geoffrey Horsfield, Wm. J. Mericka & Co., Secretary; and Howard E. Phillips, Edward P. Field & Co., Treasurer.

Phillips Trading Mgr. For Edw. P. Field Co.

Edward P. Field & Co., 37 Wall Street, New York City, members of the New York Stock Exchange, announce the appointment of Howard E. Phillips as manager of their newly organized trading department, where he will specialize in the distribution of over-the-counter securities.

Mr. Phillips' experience in the investment business covers a period of twenty-five years. His most recent connection was with Geo. R. Cooley & Co. as vice-president and resident manager of their New York City office.

Lewis Pollok Partner In R. N. Eddleman Co.

HOUSTON, TEX.—Lewis W. Pollok has been admitted to partnership in R. N. Eddleman & Co., First National Bank Building. In the past he was manager of the Municipal Department for George V. Rotan Co., and was with Neuhaus & Co.

Wurts Dulles Admits Theodore Sheaffer

PHILADELPHIA, PA.—Wurts, Dulles & Co., 1416 Chestnut Street, members of the New York and Philadelphia Stock Exchanges, will admit Theodore Sheaffer to partnership in the firm on May 1. Mr. Sheaffer in the past was a partner in Yarnall & Co. and was with Hornblower & Weeks.

R. R. Swift Sales Mgr. For R. L. Day in N. Y.

R. L. Day & Co., Members New York Stock Exchange, announces that H. Roland Swift has become associated with them as sales manager of their New York office, 14 Wall Street. In the past Mr. Swift was with Spencer Trask & Co.

To Be Leo Ryan Co.

Effective May 1, the firm name of James J. McLean & Co., 11 Broadway, New York City, will be changed to Leo V. Ryan & Co. The change is in name only, partners remaining the same—Leo V. Ryan and Alice G. Ryan, Mr. McLean having retired from the firm in 1942 upon induction into the Army.

Leo V. Ryan & Co. is successor to the prior firm.

Connecticut Brevities

For the year ended Dec. 31, 1945, the New York, New Haven & Hartford RR. had total operating revenue of $173,196,985 as compared with $182,394,331 in 1944. Freight revenue of $82,985,889 showed a decline of 10.5% whereas passenger traffic of $76,577,206 increased 1%. Net income for 1945 was $3,596,689 against $14,071,121 the preceding year. Fixed charges were covered 1.30 times against 2.16 times in 1944.

* * *

The Connecticut River Power Co. for the year ended Dec. 31, 1945, had operating revenue totaling $4,383,034 against $4,427,756 the preceding year. Net income of $1,297,884 compared with $1,401,-004 in 1944. Fixed charges and preferred dividends were covered 2.25 times and 2.19 times, respectively.

* * *

At the end of the first quarter of 1946, the Phoenix State Bank & Trust Co. of Hartford had a book value per share of $319.64 compared to $297.12 at the close of 1945.

* * *

The United Illuminating Co. reported total operating profit of $14,973,357 for the year ended Dec. 31, 1945, compared to $14,-555,917 for the preceding year. Net income was $2,678,610, or earnings of $2.15 per share on the common against $2,664,401, or $2.14 per share in 1944.

* * *

A special meeting of the stockholders of the Meriden National Bank has been called for May 13 to consider an offer of the Hartford-Connecticut Trust Co. to purchase the bank by paying $65 a share for all outstanding stock.

* * *

For the year ended Dec. 31, 1945, the American Hardware Corp. reported operating income of $406,389 which compared with $3,167,007 the preceding year. Total income for these same periods was $571,902 and $3,253,731, respectively. Net income (after extraordinary adjustments including refund of prior years income taxes and carry backs, rebate on prior years renegotiations and other tax adjustments for prior years, accelerated amortization, and provision for reconversion, renegotiation and contingencies) was $602,008 against $759,733. On a per share basis, earnings were $1.23 against $1.55 in 1944.

At the year ended Dec. 31, 1945, the balance sheet showed net working capital of $13,462,-242 against $12,618,204 a year ago. Equity per share was $39.03 and $38.47, respectively.

* * *

On May 15, the stockholders of the Electric Boat Co. will vote on a recommendation of the directors to create a preferred stock issue to be distributed to the common stockholders as a stock dividend. It is proposed to issue 173,932 shares of preferred to be given to the common stockholders on the basis of one preferred share for every four shares common held. The new stock would be a no par cumulative $2 preferred callable at $52.50 for the first five years and at $51.25 thereafter.

* * *

Operations of the Billings & Spencer Co. for the year ended Dec. 31, 1945, resulted in net income of $103,872.70 after $156,-892.94 for depreciation of plant and equipment and amortization of emergency facilities, $139,372.70 for Federal and State taxes, and a $40,000 addition to Reserve for Postwar and War Contingencies. This compares with net income of $106,438.33 for 1944. Earnings per share for the year were 56¢ compared with 57¢ for the preceding year.

The Reserve for Postwar and War Contingencies as of Dec. 31, 1944, was $134,590.26. To this was added $40,000 from 1945 operations. The reserve was reduced by $27,985.15, the net effect of renegotiation of government business for 1944, and by $26,289.34, the net effect of taking accelerated amortization of emergency facilities for the years prior to 1945. The reserve as of Dec. 31, 1945, was $120,315.77.

* * *

Net income for the year 1945 of Scovill Manufacturing Co., after provision for taxes and all other charges, amounted to $3,-049,634, or $2.91 a share compared with $2,093,676, or $2 a share in 1944. This compares with adjusted net income for the five-year period 1941-1945, inclusive, which averaged $3,602,731.

* * *

United Aircraft Corp. reported net profit of $14,855,280, or $4.35 a share on the common compared with a net of $15,562,335, or $5.37 a share earned the previous year. Sales for the past year were $484,310,503 against $743,527,683 in 1944.

* * *

Colt's Patent Fire Arms Manufacturing Co. showed net income of $532,008, or earnings of $2.70 per share for the year ended Dec. 31, 1945, while operations of the preceding year resulted in a loss of $3,661,691, or $18.59 a share. Sales volume for the past year was $30,206,927 against $49,719,627 in 1944.

Jenks Kirkland to Admit

PHILADELPHIA, PA.—Jenks, Kirkland & Co., 1421 Chestnut St., members of the New York and Philadelphia Stock Exchanges, will admit Cummins Catherwood to limited partnership on May 1st.

Missouri Brevities

A net profit, after taxes, of $343,308 (71½ cents per share outstanding) is shown on sale of $14,481,000 by Century Electric Co. of St. Louis, Mo. Dividends of 45¢ per share were distributed to 657 shareholders during the year, aggregating $214,394. The balance of $128,913 was added to surplus. Of the total gross income for the year 47% was paid for payroll items; 47.6% was paid for materials used and sundry expense items; 3.1% was allocated to taxes; 2.3% was left for stockholders' interest, of which ⅔ was paid in dividends and ⅓ left in the business.

* * *

The St. Joseph Light & Power Co., a subsidiary of Continental Gas & Electric Corp., will sell at competiitve bidding April 22 $3,-750,000 of new first mortgage bonds series of 1976 and use the proceeds to redeem $3,635,000 of its 4½% first mortgage bonds at the redemption price of 100 and for construction purposes. Bids will be received at office of United Light & Power Service Co., Chicago, up to 12 noon, CST.

* * *

The Securities and Exchange Commission will consider the proposed refinancing program of Union Electric Co. of Missouri on April 23. The company proposes to exchange or redeem all its outstanding 130,000 shares of $5 preferred stock through the issue of a new series of preferred. Holders of old preferred will be offered the privilege to exchange for new preferred, on a share for share basis, with a cash adjustment. Union Electric will redeem all unexchanged old preferred at the redemption price of $110 per share and accrued dividends.

The company will ask competitive bids for services in obtaining exchanges of old preferred and for the purchase of shares of new preferred not required to effect the exchanges.

* * *

John L. Wilson, President of St. Louis Public Service Co., in his remarks to stockholders for the year 1945 states: "Financially, our company is in excellent condition. Our funded debt on Dec. 31, 1945, was the lowest in the history of the company. This means that our fixed charges are reduced to lowest amount in the history of the company. Going into 1946 we are pleased to say that, as a result of the measures which have already been undertaken our gross revenue for the months of January and February, 1946, shows an increase over the corresponding period of 1945."

* * *

The capital stock of the Black, Sivalls & Bryson Corp., makers of oil field equipment, has been purchased by the Smith Engineering Co., of Kansas City, Mo., in a transaction said to involve about $7,000,000.

Arthur J. Smith, president of the local refinery engineering and designing firm, also announced the formation of a new corporation, the A. J. Smith Corp. Mr. Smith was elected president and general manager. A. H. Black, Kansas City, one of the four founders of the equipment firm, will remain as chairman of the board of directors. The company employs about 2,000 persons.

* * *

Southwestern Bell Telephone Co. has called for redemption on June 1 next its outstanding first and refunding mortgage 3½% bonds Series B, due Dec. 1, 1964. The bonds will be payable at office of the company 1010 Pine St., St. Louis, Mo., or at office of Guaranty Trust Co., New York.

* * *

The net income of the Kansas City Power & Light Co. for the year 1945 was $3,136,965 as compared with $2,982,569 in 1944. This represents an increase of $154,396. The operating revenues amounted to $23,615,333 for the year 1945 as compared with $22,679,189 during 1944, which is an increase of $936,144, or 4.13%. The provisions for Federal and state income taxes and Federal excess profits taxes for the year 1945 amounted to $4,271,720, representing an increase of $96,220 or 2.30% over 1944. Taxes of all kinds, as disclosed on the income statement, amounted to $6,457,936 as compared with $6,290,052 during 1944 an increase of $167,884 or 2.67%. These taxes amounted to 27.35% of total operating revenues.

Expenditures for maintenance amounted to $1,157,119, an increase of $120,267 over 1944. Provisions for depreciation aggregated $2,273,414, an increase of $51,007 over 1944. This sum and the amount included in operating expenses for maintenance were equal to 14.53% of total operating revenues for the year. The reserves for depreciation of utility plant and non-utility plant at Dec. 31, 1945, were $25,824,086 and $249,431 respectively, an increase of $1,-690,471 as compared with the combined reserve at Dec. 31, 1944.

Real Estate Securities

New Low Interest Rates May Change Complexion of Real Estate Bond Market

The recent successful underwriting of the Southern Pacific Railway at the low rate of 2¼%, and the United States Rubber Co. at 2½%, was a source of surprise to many investors and even professional dealers who have been accustomed to the high yields offered by real estate securities.

Their surprise has now turned to amazement because these same low interest rates are now cropping up in their own back yard! About a week ago, there appeared in the newspapers an announcement of a long-term realty mortgage at even a lower rate. The property was a six-story mercantile building at the northeast corner of Crosby and Grand Streets, occupying a plot of 12,500 square feet. The mortgage amounted to $135,000 at 2% interest and amortization of 4% for a term of 20 years.

Notice was given last week that the bonds of the Tyler Building were being redeemed this week at par and accrued interest. These bonds have been paying 6% interest and are being redeemed with the proceeds of a mortgage placed with the Sun Life Insurance Company of America at an interest rate of 3⅞%.

If these situations are forerunners of a general reduction in mortgage rates on real estate in New York, it may very well be that prices of real estate securities will go to much higher levels.

Issues that should be especially watched are those that have been selling at a large discount due to low interest rates fixed in reorganization.

Many of these issues have an intrinsic value far in excess of the value indicated by the security price, but are influenced by yield afforded.

Take for instance the issue known as Broadway Barclay. These bonds are fixed at 2% and pay additional interest, if earned. Last year they paid 2.4% and this June a larger interest payment is hoped for. Current market for the bonds is about 59%. This puts a value on the property of about $3,600,000, based on 59% of the outstanding issue of $6,169,900. In reorganization, the owners stated that the property cost them over $8,000,000, of which their cash investment was $1,500,000.

Glenn Degner Opens Firm in Minnesota

(Special to THE FINANCIAL CHRONICLE)

OWATONNA, MINN.—Glenn J. Degner has formed Degner & Co. in partnership with M. F. Degner to deal in investment securities. Mr. Degner has been serving as an officer in the USNR and prior thereto was a price analyst for the OPA. Until 1941 he was an officer of Smith, Burris & Co. Mrs. Degner has been practicing law in Washington.

Theodore Roosevelt III With Montgomery Scott

PHILADELPHIA, PA. — The New York and Philadelphia Stock Exchange firm of Montgomery, Scott & Co., 123 South Broad Street, announces that Theodore Roosevelt III has become associated with them.

Robert Huncilman Is With City Securities

(Special to THE FINANCIAL CHRONICLE)

INDIANAPOLIS, IND.—Robert M. Huncilman has become associated with City Securities Corp., Circle Tower. Mr. Huncilman was formerly a principal of McNurlen & Huncilman for many years.

McEntire Named to SEC

On April 15 President Truman sent to the Senate the nomination of Edward B. McEntire of Kansas to be a member of the Securities and Exchange Commission. Associated Press Washington advices stated that White House Press Secretary Charles G. Ross announced that Mr. McEntire will fill the Republican vacancy created by the resignation of Sumner T. Pike's resignation, effective April 30. Mr. McEntire has been named for the remainder of the term expiring June 5, 1948. He has been Kansas State Commissioner of Corporations.

Werges With Rice Co.

(Special to THE FINANCIAL CHRONICLE)

ST. PAUL, MINN. — John R. Werges has become associated with Irving J. Rice & Co., First National Bank Building. Mr. Werges who has recently been discharged from the U. S. Army with the rank of lieutenant-colonel, in the past was with Angland & Co.

Mead Committee and Lend Lease Settlements

By HERBERT M. BRATTER

Senate committee investigating national defense expresses disappointment at progress in solving dollar scarcity problem abroad and criticizes lend-lease valuations in negotiating settlements with Britain. Committee advocates strategic stockpiling.

WASHINGTON, April 17—In Part 5 of its Report No. 110, just distributed, the Senate Special Committee Investigating the National Defense Program describes as illusory the supposed benefits the United States obtained in the lend-lease and surplus property settlement with the United Kingdom last year and recommends for this country stockpiling of foreign strategic and critical materials as one way of recovering something from the supplies being disposed of abroad. The report, which deals with the findings of various of the committee members during overseas itineraries, expresses the committee's disappointment that so little progress has been made in the solution of the problem of dollar scarcity abroad.

Herbert M. Bratter

Concerning the surplus property settlement "the committee is of the opinion that no adequate appraisal of the property was made by anyone upon which to base a fair judgment as to the price we should receive for it. According to the testimony previously quoted, no study of market conditions was made.

"The committee is of the opinion that altogether too little effort and attention was devoted to developing the facts concerning the nature and condition of our surpluses and their market value

(Continued on page 2116)

Silver Munich Ahead?

Washington correspondent recounts efforts of silver bloc to have official silver price advanced to $1.29 an ounce, compared with present price of 71.11 cents an ounce for industrial users. Looks for compromise price at around $1.03.

WASHINGTON, April 17.—With each side well organized, a little publicized wrestling match over silver has been going on in the Senate Subcommittee which is considering the Treasury Department Appropriation Bill. That measure contains a House of Representatives rider authorizing the sale of Treasury silver at 71.11 cents an ounce for industrial uses. The rider is the approximate equivalent of the Green Act, which expired in December. Since then industrial fabricators have had great difficulty in obtaining silver. Now, with reduced mine production here and abroad, increased coinage and industrial consumption in Mexico, and strike tie-ups in American smelters and refineries, the fabricators state, and the miners do not deny, that some industrial users of silver are closing up for lack of metal.

For months the Silver Mining Bloc, which is very strong in the Senate, has been reported as willing to withdraw its objection to the resumption of Treasury sales of silver, as provided in the above-mentioned rider, on condition that the price of newly-mined domestic silver be increased. The present 71.11 cents subsidy price was fixed in 1939 as an extension, at a higher level, of the program initiated in December 1933. Latterly, Silver Senators have been making renewed efforts to get the Treasury's buying price for newly-mined domestic silver raised to $1.29 an ounce. But there have been persistent reports that the Silver Bloc would be willing to compromise with the industrial users, for the present at least, on a price somewhere between 77c and $1.29—say $1.03. Senator McCarran of Nevada is the author of a proposal to raise the price in two stages, reaching in the end $1.29. Whereas heretofore the industrial users have firmly refused to consider any price increase, the outlook now is for some compromise.

Industrial consumers recognize that there has been an increase in costs of silver mining and refining. Moreover, most of them, it is said, could operate profitably with silver at a much higher price, especially where their own products are not subject to a price ceiling. During the April 16 session of the Appropriations Subcommittee, Senators Green and Murdock had a pointed and somewhat warm discussion of a willingness to compromise, and it is not unlikely that the industrial interests may offer to settle for a limited period of a year or two on a basis along the lines of the recent industrial wage settlements, namely an 18% increase in the Green Act price. This would mean for Treasury Silver sales as well as newly-mined purchases something like 84 cents or 85 cents an ounce, instead of 71.11 cents. Whether the mining interests, being offered this "drop of blood," would settle for that remains to be seen.

At Tuesday's meeting Senator Tydings of Maryland sought to have a vote at once. He will try again on April 18. But Senator

(Continued on page 2121)

Arguments Against the Bulwinkle Bill

By HON. HENRY A. WALLACE*
Secretary of Commerce

Secretary Wallace contends that passage of the Bulwinkle Bill relieving rail rating organizations from the operation of the Anti-Trust Acts would impose a tax on all industry and consumers and would open way for railroad conspiracies. Says basic defect of bill is removing safeguards against collusive practices by carriers, thus impairing competition in rates and services. Holds that even though ICC's power over rates is complete, it is inadequate as substitute for competition. Claims bill will extend domination of small carriers by larger ones, and advocates Congress await outcome of pending court cases against rating organizations. Admits present freight rate levels are relatively low.

The issue which this legislation (H. R. 2536) places before us essentially is whether our economic system can afford an extension of monopoly and the restrictions that monopoly practices inevitably engender. That such practices already exist to an alarming extent in our economy is generally conceded. That they might expand to such a degree as to threaten the very existence of our free enterprise system is a danger against which we must continually guard. All our hopes for achieving our goals for full production and full employment, all our efforts to create a climate favorable to the birth and growth of small business are dependent upon the maintenance of healthy competitive conditions, with free scope for firms wishing to compete and expand rather than to restrict in the interest of protecting a fixed market.

Henry A. Wallace

This need was given full recognition by President Truman in his Budget Message. In the section entitled "Small Business and Competition" he proposed a coordinated anti-monopoly program, describing the need for such action in terms which I recommend as worthy of review by the committee. The Bulwinkle Bill runs directly counter to this program.

In the transportation industries, monopoly action touches not just one industrial segment but practically every aspect of our economic life. Almost all production is dependent to some extent, directly or indirectly, upon transport services. Efficient transportation at reasonable cost may spell the difference between success and failure for many of the new ventures undertaken by returning veterans and other small businessmen, and it directly affects the possibility of opening up underdeveloped or depressed areas for urgently needed industrial growth. Unnecessarily high charges for the movement of materials and finished products increase the costs of production and distribution everywhere. In other words, passage of this bill will impose a tax on all our industry and consumers, for the benefit of those potential monopolists in the transportation industries who seek this means to escape the last legal deterrent to their conspiracies.

Under the legislative standards and directives proposed in the Bulwinkle bill, exemption from the anti-trust laws requires the commission's approval only of the charter of organization of executive associations, rate bureaus, and conferences established by common carriers or freight forwarders for the purpose of joint consideration of rate and service matters. Subsequent joint acts or decisions jointly reached by such groups are thus relieved from the anti-trust laws without having to have specific approval by the commission. Apparently, it would not even be necessary for carriers or freight forwarders to file such subsequent agreements with the commission for public inspection. The only safeguards to the public are the provisions prohibiting the commission from approving agreements between carriers of different agencies and those which do not give each carrier opportunity to act contrary to the determination reached through joint procedure.

Removes Restrictions as to Rate Agreements

It should be noted that H. R.

(Continued on page 2102)

*Statement of Secretary Wallace before the Senate Committee on Interstate Commerce, April 10, 1946.

Chicago Bond Traders Appoint Three Directors

Announcement is made of the appointment of the following as members of the Board of Directors of the Bond Traders Club of Chicago: William A. Anderson, Hickey & Co., Inc.; William H. Cooley, Alfred O'Gara & Co.; Lawrence N. Marr, E. H. Rollins & Sons, Inc.

According to the by-laws, the Board of Directors consists of the four officers, the retiring President, and three new members appointed by the newly elected officers.

Committee Chairmen are as follows:

Finance—O. H. Strong, First National Bank of Chicago.

Membership—Ernest A. Mayer, Holley, Dayton & Gernon.

Program—Dominic C. Cronin, A. C. Allyn & Co., Inc.

Publicity—Leonard J. Wolf, A. G. Becker & Co., Inc.

Louis Stone Forms Investment Firm in N.Y.

Louis Stone is forming L. Stone & Co., Inc., and will open offices at 20 Broad Street, New York City, about May 1. He will deal in bank stocks and other unlisted securities. Mr. Stone will be President of the new firm, and Thomas L. Kraig, Secretary and Treasurer. Philip R. Meyer will be Manager of the Trading Department.

Mr. Stone was formerly statistican for Winslow, Douglas & McEvoy, and has recently been serving in the U. S. Army.

U. S. Trade Opportunities in China

By S. D. REN*
General Manager, Universal Trading Company

Chinese industrialist recalls crippling effects of the early treaties forced upon China, and points out that under new conditions of China's equality and absence of Japanese domination the United States has opportunity of a leading role in China's trade, displacing Britain, Germany and Japan. Looks for increasing trade between U. S. and China, but says its pattern will depend on extent that U. S. imports Chinese products and on China's industrialization. Holds China will replace Japan in supplying U. S. with low cost import necessities, and that U. S. can furnish China with former U. S. imports Chinese products and on China's industrialization. with U. S. technical and financial aid.

In addressing the Foreign Trade Club of New York University I believe I am facing an audience whose knowledge of foreign trade theory and practice is so thorough that any attempt at presentation either in philosophical speculation or statistical demonstration becomes superfluous. If any guidance is necessary along these lines, your eminent professors such as Dr. Pratt and others will provide for the former and the stocks full of excellent material already in the university or public libraries will supply the latter. My remarks will, therefore, be confined to a brief presentation of some of the more salient facts which have taken place before and during the World War II having a direct bearing, to a more or lesser degree, on the trade between the United States and China and of some possible developments affecting that trade which may take place during the coming 10 or 15 years.

S. D. Ren

United States direct trading with China began almost immediately after the establishment of the Republic. In less than one year after its independence was recognized, the first American ship, the "Empress of China," left New York and arrived at Canton in August, 1784. From that time on American traders carried on a profitable adventure exchanging

*An address by Mr. Ren before the Foreign Trade Club of New York University School of Commerce, April 5, 1946.

(Continued on page 2107)

Let's Understand Russia

By HON. JAMES E. MURRAY
U. S. Senator from Montana

Asserting the Soviets deserve fair recognition for war achievements and for promoting tolerance and eradicating prejudice, Senator Murray condemns "a growing spirit of intolerance toward Russia." Urges Americans achieve a deeper understanding of Russian ideals and achievements on ground that chief world problem is whether Communist Russia and capitalist America can live peacefully side by side. Holds we need new orientation of foreign policy and lists seven points which should guide Senate in conduct of our foreign affairs.

No thoughtful American can ever forget the heroic struggle of the Russian people when, at the gates of Stalingrad, they stopped the mighty* Nazi war machine in its tracks, turned the tide of battle and started the counter offensive which, with the help of America and Britain, finally resulted in the capture of Berlin and the complete defeat of Hitler's armies. When we think of Stalingrad, let us remember that thousands of orphans, children of men and women who died in the smoking ruins of that once thriving city, are now being settled in Birobidjan. To these homeless boys and girls, Birobidjan represents an opportunity to build a new life amid happier surroundings.

Sen. Jas. E. Murray

But the significance of Birobidjan extends far beyond the Soviet Union. Already, more than 3,500 Jewish orphans from the other countries of Europe are harbored in this rich and fertile region. In the near future, if the highly commendable plans of the American Birobidjan Committee are successful, Birobidjan will soon provide a haven for 30,000 additional Jewish orphans from the other war-devastated countries of Europe.

Today, we hear considerable talk about international relief. There is a growing awareness that we here in America, we who were fortunate enough to have escaped the horrors of war on our own shores, that we have failed to measure up fully to our humane obligations in supplying food to those unfortunate ones whose homes and food supplies were wiped out by the recent conflict. We are struggling now to meet that obligation.

But that is not the complete story. I believe we also must realize that no effective program for war relief can be complete without practical plans for helping to resettle Jewish children—victims of the war.

The importance of Birobidjan, to my mind, transcends even the problem of relief. In a world still suffering from prejudice and intolerance, the Jewish autonomous region of Birobidjan provides a safe haven where there is no such thing as anti-Semitism.

In a world where we already see arising the same conflicts and clashes between nationalities which so often give birth to war, Birobidjan is one area where there are no racial or religious conflicts or clashes. Birobidjan symbolizes the entire spirit with which the problem of minority groups is handled throughout the Soviet Union—in all of its far-flung regions and all of its constituent republics.

Criticism of Soviet Russia

In recent years, there have been many criticisms of Soviet Russia. But it has been many long years since anyone has reported the existence of anti-Semitism in the country which was formerly the land of Tsarism and the "pogrom."

The term "dictatorship" has

(Continued on page 2120)

*An address by Senator Murray before the American Birobidjan Committee, Newark, N. J., April 14, 1946.

Borg-Warner Preferred Stock Offered at $103

Financing intended to furnish the Borg-Warner Corp. with $20,035,875 to expand and modernize its system of manufacturing plants was undertaken April 17 by a syndicate of 59 investment bankers headed by Paul H. Davis & Co., Glore, Forgan & Co. and the Union Securities Corp. in a public offering of 200,000 shares of 3½% ($100 par) cumulative preferred stock at $103 a share plus accrued dividends.

The expansion program is intended to bring about lower costs in manufacturing the company's lines of automotive equipment, household appliances, aviation equipment, agricultural machinery parts and other industrial products. During the last five years the company spent about $15,599,526 for additions to plant and equipment, of which about $7,862,354 was for war production facilities.

Halsey, Stuart Offer Nickel Plate Issue

A banking group headed by Halsey, Stuart & Co., Inc., made a public offering April 16 of $41,500,000 refunding mortgage 3% bonds, series F, due April 1, 1986, of the New York, Chicago & St. Louis RR. (Nickel Plate) at 102.36% and accrued interest. The group was awarded the bonds in competitive bidding, offering 101.529% for the issue.

Proceeds from the sale of the bonds, together with treasury funds, will be used to redeem on July 1, 1946, at 105½% and accrued interest $41,796,000 outstanding refunding mortgage 3¾% bonds, series D, due Jan. 1, 1975.

Outstanding capitalization of the company after giving effect to the present financing will consist of $99,500,000 total mortgage debt, $14,895,000 of equipment obligations and $70,029,329 capital stock. With the completion of the present financing, Nickel Plate will have reduced its non-equipment debt outstanding in the hands of the public by $54,757,000, or 35%, since 1935. The net reduction in total debt for the same period will be $48,180,000, or 30%.

British "Boom Budget"

By PAUL EINZIG

London observer notes widespread satisfaction with Labor Cabinet's new budget, though doubts are expressed that Chancellor of Exchequer is over-optimistic regarding balancing expenditure and revenue in face of spectacular increase of social service charges.

LONDON, ENGLAND.—Dr. Dalton appears to have accomplished the impossible. He has succeeded in producing a budget which is calculated to stimulate business activity, without having to sacrifice any substantial amount of revenue to that end. For weeks the Cabinet was divided on the question whether to make major tax concessions for the sake of encouraging an increase of production or to reduce the budgetry deficit as far as possible even at the cost of discouraging production by maintaining the war-time era of austerity. Dr Dalton, representing the Treasury's point of view, was against giving away too much revenue. At the same time he has succeeded in elaborating a formula with the aid of which the atmosphere of austerity could be dispelled in spite of the maintenance of high taxation.

Paul Einzig

This end has been achieved by presenting to the country an optimistic picture beyond all expectations. The Chancellor's audience in the House of Commons on April 9 was fully prepared to face a gloomy picture. It expected Dr. Dalton to resort to the device of appealing to the public to work harder and spend less, by impressing it with the gravity of the outlook. Instead, he painted his picture with quite unexpectedly rosy colors. He claimed that the Budget will be virtually balanced this year, if non-recurrent abnormal items on both sides of the accounts are disregarded, and that from next year onward it will depend entirely on the Government's policy whether the Budget should have a deficit or a surplus.

On closer examination some doubts may arise whether, in face of the spectacular increase of social service charges during the coming year, this contention could be upheld, especially as revenue was also estimated rather optimistically. But the country has heard so much about Britain's "bankruptcy" and the "hopelessness" of her financial outlook that it seized eagerly upon the arguments of optimism, and Dr. Dalton had in consequence a reasonably good Press. Disillusionment, if it should come, may not come for some time, and meanwhile Dr. Dalton's optimism makes for a boom.

In any case, he gave more concrete reasons for most people to be pleased with his Budget. By sacrificing a relatively small amount of revenue, he has managed to give some relief to the largest possible number of taxpayers. In particular taxpayers of the lowest income-groups have been exempted from Income Tax and death duties. About a million taxpayers will have their "postwar credit" (that part of their Income Tax which was retained as a forced loan during the war) refunded. This fact cheered millions of other taxpayers, for there had been much doubt whether the Government had really intended ever to repay this debt. Now that a beginning has been made with the repayment of a small fraction of the amount held everybody holding such a claim knows that his or her turn is bound to come. Thus, at the cost of a small sacrifice he has succeeded in winning the approval of a very large section of the public.

Conservative critics denounced this bid for popular approval as a vote-catching device, but since the next general election is not likely to come until 1950 this criticism appears to be unjustified. In any case, even the Chancellor's Conservative opponents have good reason to be pleased with his Budget. For, although they resent the increase of Death Duties on large fortunes, they breathe with relief owing to the Chancellor's decision not to introduce a tax on surplus dividends. The removal of Excess Profit Tax without its replacement by another kind of tax is also a welcome feature of the Budget from the point of view of business men. The relief felt on this account is admittedly somewhat mitigated by the fact that the greater part of the relief obtained through the removal of the Excess Profits Tax is taken away in Income Tax or in Profits Tax (which is the new name for the old National Defense Contribution). Even so, most business men expected something much worse, and they have reason to be pleased.

In addition to solving the problem of providing relief without spending much on it, Dr. Dalton has also solved the problem of producing a "Boom Budget" without thereby jeopardizing the chances of the ratification of the loan agreement by Congress. Had he yielded to pressure by some of his colleagues in the Cabinet by materially reducing taxation, it might have antagonized Congress, since it would have been quoted as evidence indicating that Britain would use the proceeds of the loan for relaxing rather than intensifying her efforts of reconstruction. The Chancellor must have also been influenced by the possible effect on Congress of his Budget when he refrained from introducing any new radical taxation apart from the increase of Death Duties. However this may be, even his critics must recognize his extreme skill in producing a reasonably good Budget in face of great difficulties. This achievement has certainly contributed more towards increasing Dr. Dalton's prestige in Parliament and in the country than anything he has done since he took charge of the Exchequer.

Now Bell Farrell & Stebbins

(Special to THE FINANCIAL CHRONICLE)

MADISON, WIS.—Bell, Farrell & Stebbins, Inc., has been formed with offices at 119 Monona Avenue to continue the securities business of Bell & Farrell. Officers are Vern S. Bell, President; Walter W. Stebbins, Harris G. Allen and James C. McCord, Vice-Presidents, and Carl W. Farrell, Secretary-Treasurer. Mr. Bell, Mr. Allen and Mr. Farrell were partners in the predecessor firm with which the others were also connected.

McCreery Resumes Duties At B. J. Van Ingen & Co.

B. J. Van Ingen & Co., Inc., 57 William Street, New York City, announces that W. A. McCreery, Captain, USNR, has been released from active duty and has resumed his activities with the firm.

Railroad Outlook

By ROGER W. BABSON

Mr. Babson points out that the railroads, faced with probable wage increases and with more competition for traffic, will have to depend both on higher rates and expanded volume of traffic, if their net earnings are to be maintained. Holds probability of both higher rates and large traffic is good, but contends that railroad securities are now comparatively high.

War came to the rescue of the railroads. The decline in traffic and earnings which had persisted since the 30's ceased. Volume of traffic and net income reached new peaks. However, the real worth of rail securities must be judged, not on past, **but on future**, performances. Several things must be considered when making a decision on railroad earning power—volume of traffic, operating expenses, taxes, bond interest and rate charges.

Roger W. Babson

Traffic Outlook

Volume of freight traffic varies in proportion to business activity. Before the war, their competitors (trucks, automobiles, pipe lines, shipping and airplanes) had cut into the railroads' revenues. However, the war helped the railroads and hurt the other carriers. The railroads, moreover, need no time to adjust themselves to peacetime operations. A pent-up demand for goods, with the greatest cash reserves in many years, should insure good business activity and thus a large volume of freight. Passenger traffic should also be good for awhile in spite of auto and air competition.

The Federal Reserve Board's Index of Industrial Production shows an increase from 110 in 1929 to 171 in 1941. In line with these increases, railway freight traffic jumped to a new prewar peak in 1941 with an increase of 25 billion ton-miles carried over those of 1929. It certainly seems that the railroads could count upon at least their prewar gross traffic which gave them $500,000,000 net in 1941.

The Department of Commerce estimates a "Gross National Product" of $150,000,000,000 for 1947. This could produce an increase in railroad gross earnings over 1941 of 5% for 1947. This is especially interesting when we note that the 1944 figure for our Gross National Product was $195,000,000,000. Thus we can get a 5% increase in railroad earnings even with a decline of $45,000,000,000 in total national income. Predictions, therefore, point to a greater volume of railway traffic during the next few years than in the peak peacetime year of 1941.

Higher Costs Inevitable

We must, however, remember that there has been a 20% increase in wages since 1941 which will absorb $300,000,000 in 1947. A price rise in items essential to the railroads, such as lumber, steel and coal, will add to the increased costs due to wages.

The great operating efficiency attained during the war carried over into peacetime economy should help overcome the wage increases granted between 1941 and 1946, amounting to 20%. We must ask ourselves, however, how much more wages will be increased during the next year or two.

Fixed Charges Lower

We find that the $500,000,000 net income of 1941 with the wage and price increases which will have occurred since that date will be highly inadequate to meet 1947 operating expenses. If railroad net income is to be maintained, business activity must remain well above the 1941 level and an increase in rates will be needed in addition. Whether the public is in a mood to accept such is any reader's guess.

The railroads are in a much stronger position now than in prewar years, since they have used $2,500,000,000 of their war earnings to decrease their debt. Consequently, their fixed charges have perhaps declined $200,000,000 a year. They have also increased their net working capital from a 1941 level of $600,000,000 to $2,000,000,000 in 1946.

Conclusion

It is evident that railroad net earnings will hinge on both higher rates and an expanded volume of traffic. If the next several years favor both these factors, railroad net income should remain fairly good. However, is it smart to bet on the possibility of both higher rates and a high volume of traffic when railroad securities are now selling so comparatively high?

Bar Ass'n to Discuss OPA Apparel Control

The eeighth of the series of forums on O.P.A. problems being conducted under the auspices of the O.P.A. Committee of the Federal Bar Association of New York, New Jersey and Connecticut, of which A. Philip Woolfson, formerly with the O.P.A. in Washington, D.C., is chairman, will take place on Tuesday, April 30, 1946, at 9 P.M., in the United States Court House, Foley Square, New York City.

The speakers will be Jerome S. Lieberman, Junior Price Executive, Consumer Goods, Price Division, OPA, Washington, D. C.; and Joseph Forer, Director, Apparel and Industrial Materials, Enforcement Division, Washington, D. C.

The Honorable J. Vincent Keogh, United States Attorney for the Eastern District of New York, will preside.

At the conclusion of the lectures there will be an opportunity for questions.

Tickets of admission, for which there will be no charge, may be obtained by sending a self-addressed envelope to: A. Philip Woolfson, 67 Wall Street, Room 506, New York City.

Chas. Moore, Ltd., Partner In Dean Witter & Co.

SAN FRANCISCO, CALIF.—Chas. E. Moore, senior partner of Moore Machinery Co., San Francisco and Los Angeles, has been admitted to limited partnership in the firm of Dean Witter & Co., 45 Montgomery Street, members of the New York and San Francisco Stock Exchange.

Mr. Moore, former President of Joshua Hendy Iron Works, is regional Vice-President of the Navy Industrial Association and President of the San Francisco Post of Army Ordnance Association.

A director of the National Association of Manufacturers for two years, Mr. Moore recently returned from a 40-day Army sponsored tour of South Pacific bases where he discussed job opportunities with future veterans. He also served with the Harriman Mission to England in 1941.

Improved Mortgage Lending

By A. E. MacDOUGALL*

President, The Queensboro Corporation

Mr. MacDougall points out need of apartment house construction as a means of solving housing shortage and proposes a mortgage plan for this construction, providing for 15-year loans at 4¼% with amortization provisions. Urges removal of Federal shackles from building business by (1) repeal of restriction of building materials for use in veteran homes only; (2) elimination of rent control on all new construction; and (3) increase in ceiling prices of building material to encourage production. Calls apartment mortgages a high-yield investment for institutions.

Since the meeting will be devoted largely to the small house field, my remarks will refer more particularly to the apartment house problem with which I am more familiar.

In certain sections of Long Island apartment buildings of two to six stories in height will help solve the housing requirements of persons seeking new homes more advantageously and more economically than small house construction.

A. E. MacDougall

It seems to me they should both be advanced as rapidly as possible and an effort should be made to have the Federal Government recognize the apartment as a satisfactory mode of living rather than follow its present policy of concentrating entirely on the small house field.

On the mortgage angle, as it affects apartment construction, I would like to see a general plan worked out applying to new buildings to provide for 15-year loans, with interest at 4¼%, and amortization of 5% for the first five years; 3% for the second five years, and 2% for the third five years, on a non-constant basis, and with right to prepay at the end of ten years.

On this plan brokers could concentrate more on appraisal and recommending loans in specific amounts based on real estate elements they know, such as the desirable features of the plan they are presenting and of the location they are recommending.

There are many brokers, members of the Long Island Board, who can analyze plans and assist mortgage institutions in making sounder loans based on the rentable features of a particular plan. The general scheme of so much loan per room in a given area penalizes the owner and architect who incorporate new ideas of sound tenant appeal and favors the poorer plan. Ample garden areas may materially help in stabilizing higher rents over a period of years as against congested building. A limited number of balconies if properly placed may affect the rent value, and a garage of the right capacity may have the same effect.

In a given zone, a particular location may affect rent values by several dollars per room. The builder doesn't always guess right as to community facilities and access to transportation lines.

On these various points the mortgage broker can be of real service and develop his business as financial interests become convinced that the broker is fighting for a higher loan based on the merit of the plan and location rather than trading on rates.

By and large, I believe mort-

*Address by Mr. MacDougall before the Long Island Real Eastate Board Mortgage Conference, Garden City, L. I., April 10, 1946.

(Continued on page 2109)

Bank and Insurance Stocks

By E. A. VAN DEUSEN

This Week — Bank Stocks

First quarter earnings of New York City banks are now part of the record. Compared with the first quarter of last year, the results achieved were in most cases favorable and came up to expectations, though quarterly "indicated earnings" are not necessarily conclusive nor strictly comparable.

The following table gives indicated earnings, of seventeen leading New York City banks for the first quarter of 1946 and of 1945, also book values per share as of March 31 in each year.

TABLE I

	Indicated Earnings First Quarter		Book Value March 31	
	1945	1946	1945	1946
	$	$	$	$
Bank of Manhattan	.53	.68	26.43	30.65
Bank of New York	8.08	6.50	421.67	439.20
Bankers Trust	.92	.90	46.35	48.22
Central Hanover	1.50	1.50	105.46	113.13
Chase National	1.02	.88	39.51	41.46
(1) Chemical Bk. & Tr.	.87	1.02	45.72	40.58
Commercial Nat. B. & T.	1.06	.97	52.51	55.39
(2) Continental B. & T.	.50	.47	24.77	22.94
Corn Exchange	1.19	1.33	51.49	54.07
First National	27.10	25.94	1,297.98	1,339.73
Guaranty Trust	6.25	5.43	339.05	349.85
Irving Trust	.28	.32	21.79	22.25
(3) Manufacturers Trust	1.25	1.21	52.35	55.46
(4) National City	.64	1.24	41.44	45.47
New York Trust	1.38	3.56	89.76	102.38
Public National	1.08	1.11	47.31	49.59
U. S. Trust	7.97	9.22	764.25	768.21

(1) 1945, 2,000,000 shares; 1946, 2,500,000 shares after 25% stock dividend.
(2) 1945, 400,000 shares; 1946, 500,000 shares after 25% stock dividend.
(3) 1945, 1,649,922 shares; 1946, 2,062,500 shares after redemption of preferred.
(4) Includes City Bank Farmers Trust.

Three banks in the above list revised their capitalization last year, viz: Chemical, Continental and Manufacturers.

In the case of Chemical, a 25% stock dividend was paid last November, increasing the number of shares outstanding from 2,000,000 to 2,500,000. On the basis of the higher capitalization, first quarter indicated earnings and book value in 1945 are equivalent to $0.70 and $36.50, respectively.

Continental also paid a 25% stock dividend. Adjusting for this, 1945 first quarter indicated earnings and book value are equivalent to $0.40 and $19.78.

Manufacturers Trust redeemed its preferred stock in July, 1945 and increased its common. On the basis of present common, now 25% larger, earnings and book value for 1945 first quarter are equivalent to $1 and $41.88. Earnings shown for this bank are reported "net operating"; earnings shown for all other banks in the table are "indicated," as calculated from the balance sheets.

Four other banks, in addition to Manufacturers, also published quarterly operating statements, as follows:

	Net Operating Earnings per Share 1st Quarter 1945	Net Operating Earnings per Share 1st Quarter 1946
	$	$
Chase	.61	.64
*Chemical	.80	.81
Guaranty	3.99	5.47
**National City	.68	.80

*Based on 2,500,000 shares both years.
**Includes City Bank Farmers Trust.

Thus it appears that all banks in the list made better earnings during the first quarter of 1946 than in 1945, with the exception of Bank of New York, Bankers Trust, Commercial and First National.

Compared with a year ago the total earning assets of these 17 banks are greater by $2,389,181,000 equivalent to 11.31%. But of more significance than this is the relative change that has taken place as between loans and Governments. Total Governments for the 17 banks have actually declined slightly, from $15,420,806,000 on March 31, 1945, to $15,285,455,000 on March 31, 1946. On the other hand, loans and discounts have risen from $4,698,427,000 to $7,058,050,000.

The following tabulation gives the changes between the two dates for each of the 17 banks.

TABLE II

	U. S. Governments			Loans & Discounts		
	3/31/45	3/31/46	% Change	3/31/45	3/31/46	% Change
	($000)			($000)		
Bank of Manhattan	550,299	580,468	+ 5.5	292,020	389,716	+33.5
Bank of New York	232,280	213,856	— 5.6	61,319	83,649	+36.4
Bankers Trust	977,181	826,253	—15.5	395,604	606,915	+53.4
Central Hanover	1,085,505	888,347	—18.2	335,554	553,234	+64.9
Chase National	2,779,461	2,960,277	+ 6.5	855,787	1,315,612	+53.7
Chemical B. & T.	736,401	605,489	—17.8	228,917	462,367	+102.0
Commercial Natl.	160,915	177,936	+10.6	35,251	35,543	+ 0.8
Continental B. & T.	64,995	74,925	+15.4	54,826	69,387	+26.6
Corn Exchange	509,747	602,425	+18.0	32,492	59,150	+82.1
First National	779,368	537,251	—31.1	78,301	119,893	+53.1
Guaranty Trust	2,159,912	2,060,897	— 4.4	691,164	897,934	+29.9
Irving Trust	722,086	785,356	+ 8.7	214,495	244,471	+14.0
Mfrs. Trust	1,154,034	1,421,350	+23.1	340,327	527,435	+55.0
National City	2,723,436	2,732,843	+ 0.3	771,351	1,291,484	+67.4
New York Trust	427,912	421,964	— 1.4	185,407	218,404	+17.8
Public National	253,269	300,500	+18.6	101,580	145,508	+43.2
U. S. Trust	104,005	90,318	—13.2	24,032	37,348	+30.4
Total	$15,420,806	$15,285,455	— 0.9	$4,698,427	$7,058,050	+50.2

It will be observed that whereas total holdings of Governments for the group declined nearly 1%, yet nine of the 17 banks report larger holdings than a year ago. Total loans and discounts are 50.2% greater than a year ago. Chemical leads the group with an expansion of 102%, while Commercial shows an expansion of less than 1%. Banks which show a percentage increase greater than the average are: Bankers Trust, Central Hanover, Chase, Chemical, Corn, First, Manufacturers and National City.

Corn's expansion of 82.1% still leaves it with only 6.9% of its total assets in loans and discounts, compared with the group average of 24.0%. A year ago Corn's loans represented 4.5% of total assets and the group average was 17.5%.

Withdraws Application To Sell Stock in Ohio

Allen & Co. notify Ohio Securities Commissioner of withdrawal of application to register Benguet Consolidated Mining Co. stock, but without prejudice to future application. Awaits SEC registration for determination of future selling price of shares.

On April 12, subsequent to a hearing held at Columbus, O., before Ernest Cornell, Chief of the Securities Division of the Ohio Department of Commerce, (see "Chronicle," April 11, 1946, p 1939), Jacob J. Holtzmann, attorney for Allen & Co., New York security dealers, announced that the application to sell 50,000 shares of Benguet Consolidated Mining Co. stock in Ohio had been withdrawn, but without prejudice to the concern's right to a renewal of the application after the Securities and Exchange Commission makes effective the registration now pending before it since March 15.

In a letter to Mr. Cornell, the attorney for Allen & Co. stated:

"We believe that the offering price of a stock should be determined by its intrinsic value, management, past and prospective earnings and its quotations on the open market rather than by any margin of profit or loss to the seller. You, in the exercise of your judgment, appear to place the matter of the margin of profit to the seller ahead of other considerations."

Mr. Holtzmann pointed out in his letter that the disputed selling price of $4 was merely an estimate of the maximum of the likely offering price and was intended to be used merely for calculating the filing fee. He said the SEC registration will probably not become effective for some days and the actual offering price will not be determined until then.

The stock of the Benguet Consolidated Mining Co. of Manila, until 1943 was a closely held investment owned by Judge John W. Haussermann, President and founder of the company; his wife and five family trusts. When the Japanese overran the mines and the mining stock was regarded as too depreciable an equity for trusts for minors, Judge Haussermann decided to liquidate the trusts, and in 1943 they accepted the offer of Allen & Co. to buy 1,110,000 shares at $1.05 a share. In 1945 the underwriters bought more stock at $1.80 a share, and two months ago a third block at $2.10 a share, their purchases totaling 2,200,000 shares. It is from the last-bought block that Allen & Co. registered 702,000 shares with the Securities and Exchange Commission and various state agencies for public offering.

At Goldman, Sachs in Bost.

BOSTON, MASS. — Goldman, Sachs & Co., 75 Federal Street, announce that Edward W. Marshall, formerly of their New York office, is now associated with them in Boston.

50% Higher Standard of Living Possible: W. H. Davis

Former War Labor Board Chairman declares this can be attained only by radical rise in earnings of lower income groups. Urges settling industrial disputes by effective grievance procedure. Lauds Objectives Sought by President Truman.

The American standard of living can be raised at least 50% and our national economy stabilized on that high level, according to William H. Davis, formerly chairman of the War Labor Board, and former Director of the Office of Economic Stabilization, who spoke at the New School for Social Research, 66 W. Twelfth St., on the evening of April 11.

William H. Davis

Such an increase can only be effected, Mr. Davis said, "on the basis of a 50% increase in production and distribution of consumer goods and services, and that requires a 50% increase in the average income of the lower income groups, who after all, are the mass of our consumers."

The national economy, however, cannot be stabilized, Mr. Davis stated, unless we face squarely the difficult problems of management and labor relations. "Strikes must really be made the last resort" and labor relations improved so that we may turn the promise of abundance of consumer goods and services into achievement.

Pointing out that labor relations in America have been very greatly disturbed by what went on during the war, Mr. Davis said that nothing is more destructive of the orderly growth of the values of collective bargaining than a Government agency exercising compulsory powers. Under the war emergency the Government had to resort to force and the problems thus created can be corrected only gradually with patience and understanding.

Recommending "that we start at the grass roots," Mr. Davis urged that industrial disputes be settled without resort to strikes, lock-outs and other interruptions to normal operations, through the universal adoption of an effective grievance procedure with arbitration as its final step.

"Nothing could be more helpful to labor relations in America than the universal adoption of such a procedure," Mr. Davis declared. "The possibilities that lie in it are truly tremendous. The best instruments that anyone can put in the hands of a responsible labor leader or responsible management is an effective grievance procedure by which these grievances can be settled in an orderly way without interruption in production. As confidence in grievance machinery is built up on both sides there is an accompanying growth of real respect for the contract and appreciation of its real value."

Reviewing the steps taken by the Administration to effect a substantial improvement in our standard of living Mr. Davis declared that every policy decision made by President Truman, every speech and every general or special message to the Congress, relating to the national economic policy has reflected a courageous and farsighted determination to carry out this policy and to attain the objective.

Developments in World Bank and Fund

Correspondent notes interest in Washington regarding choice positions in World Bank and World Fund. Comment regarding additional credit control. New appointments of representatives in Fund and Bank.

WASHINGTON, D. C., April 17—The Economic and Social Council, known by its initials ECSOC (pronounced **ek-sock** by the globureaucrats), has been pressing the World Bank and World Fund to complete arrangements for liaison with it by May 25. Since the executive directors of the twin financial institutions do not convene until the second week of May, this request is going to be difficult to meet.

* * *

How well ECSOC succeeds in coordinating the Fund and Bank is something which will be watched with interest. The American spokesman on each financial body, the Fund and Bank, under the terms of the BW enabling act must be "coordinated" by the National Advisory Council, which is headed by the Secretary of the Treasury. At Savannah Secretary Vinson was more coordinator than coordinated.

Several Washingtonians have been putting out lines for some of the many attractive positions which the Fund and Bank will offer. The top research post, it is rumored, will pay as much as the executive directorship, namely $17,000 after taxes. This is the equivalent in this country of about $25,000 before taxes for a married man. If the salaries down the line are in proportion, there may be some behind-the-scenes rivalry for these plums. Two names already mentioned in print in connection with the new jobs are those of E. M. Bernstein, Treasury Department monetary economist, and Ansel F. Luxford, legal assistant to the Secretary of the Treasury. Both are very able men and both have played important parts in drafting the BW program and selling it to the country and Congress.

* * *

Not all the choice positions in the Fund and Bank, of course, will go to Americans. International courtesy dictates that the honors and honoraria be spread around. However, since the stock-in-trade of the Fund very largely and of the Bank almost exclusively will be American dollars, a good case could be made for giving Americans the inside track.

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The expected Federal Reserve Board report to the House Banking and Currency Committee on

(Continued on page 2116)

The Road Ahead for America

By VIRGIL JORDAN*

President, National Industrial Conference Board

Dr. Jordan calls attention to growth in power of Government over men's life and work, which in this country, he says, is being absorbed from "the dead hand of Europe." Holds background, basis and significance of Government price control and labor policy lies in its political aspect, and unless combated, individual freedom and private enterprise will give way to permanent economic planning by Government and destruction of democracy.

The central problem of our time with which the American people must come to grips is not peace or war on the road ahead, but whether and how they can limit and control the expansion and power of the Government, at home as well as abroad. Upon what they decide to do about that problem will depend not only the peace of the world, but the kind country they will live in, and the kind of people they will be.

Dr. Virgil Jordan

We should begin to understand that war, militarism and imperialism, which we profess to fear and hate, are all only the expression of the growth in the power of the state over men's life and work, which in recent years so many have come to accept or support as progressive and desirable. International conspiracy and espionage, economic warfare, class and labor conflict, all forms of collectivism, national and international "planning" and inflation — all these are merely other manifestations of this same process of unlimited governmental expansion which is evident everywhere in the world in our time.

Within little more than a decade, the American system—its unique structure and pattern, its economics, its business system, its ideas, attitudes, instincts and institutions almost everything about it except the dry bones of its productive techniques — has been recaptured and reabsorbed by the spirit and pattern of the Europe from which it separated itself a century and a half ago.

Can and will the American people recover their spiritual integrity and sovereignty, and reassert their economic and moral power to liberate themselves here at home from the dead hand of Europe, from the spell and the superstition of unlimited government and political absolutism? Can America repel the invasion of the Old World, and remain free?

This is the ultimate issue that we must decide in the coming decade, and we meet it day by day at every milepost of the road. We meet it in seemingly small matters like the little-noticed controversy in connection with the McMahon bill, without realizing that we are here concerned with the most crucial of all for the future of the world—whether or not we should arm our Government with the supreme and unlimited power of atomic en-

(Continued on page 2091)

*Excerpts from an address by Dr. Jordan before the Eastern Spring Conference of the Controllers Institute of America, New York City, April 15, 1946.

Mutual Funds

Freedom From Worry

In its April 1 Portfolio folder entitled "Design for Peace of Mind," **The George Putnam Fund** refers to a letter received from one of its beneficiaries. The letter reads in part: "The freedom from worry that we have received from our investment in the Putnam Fund is very satisfying to us during these troublesome times."

The Trustees point out that it is the purpose of the Putnam Fund to take some of the care and worry off the individual investor's shoulders. The Fund is a "way of investing"—not just another security.

"The feeling of financial security is a very comforting one. We have all seen—and possibly experienced—the worry and the troubles that can arise when things go wrong. If this Fund can be the means of helping people achieve a greater degree of financial security and a larger measure of 'investment peace of mind,' it will have justified our dreams and our hopes."

Defensive Powers of Selection

Broad Street Sales Corp.'s current Items calls attention to the defensive powers of selection inherent in **National Investors Corp.** and **Broad Street Investing Corp.** The market performance of these two funds is compared with that of the 30 stocks comprising the Dow-Jones Industrial Average during the February break this year. In this period of sharply declining markets, National Investors declined only 8.9% and its performance was surpassed by only one of the 30 stocks used in the comparison. Broad Street declined only 9.8% and only 4 of the 30 stocks outperformed it.

Comparable figures on the subsequent recovery (from Feb. 26 to Mar. 29) demonstrate the recuperative powers of the stocks selected for the Broad Street and National Investors portfolios. In this latter comparison National Investors recovered 105.2% of the decline and Broad Street recovered 101.8%. They were second and third, respectively, in record of performance.

The Velocity Factor in Stock Selection

National Securities & Research Corp. devotes its current Investment Timing to a discussion of the velocity characteristics or price habits of stocks. Velocity may be defined as the degree of price movement of individual stocks in relation to moves of the market as a whole or of a representative market average. A knowledge of the velocity characteristics of stocks, continues the report, can be extremely useful, particularly at times like the present when both the long-term and intermediate trends of the market appear to be upward.

Percentage in profit (or loss) is caused by velocity, and frequently the importance of percentage in relation to price movements is overlooked. The real measure of profits, of course, is not the number of points that an issue rises, but the per cent gain in value. A 5-point profit on a stock bought at 50 shows a profit of 10%; at 25, 20%; and at 5, 100%.

Conclusion: "The velocity characteristic of securities is one that may well be considered in their purchase or retention. There is a definite tendency for high velocity to go with low price and for low velocity to go with high price, but for individual stocks in individual market moves the velocity factor is not reliable. Other things being equal, where capital appreciation rather than income is the main objective, there is likely to be an advantage in holding stocks whose records for some time show that they usually move more rapidly than the market average; in a downward movement, however, the converse is true."

Generous Income

A new folder just released by **Hugh W. Long & Co.** presents the advantages to investors of owning **Diversified Investment Fund.** Although the Fund has been in existence less than a year and a half, income-minded investors have purchased more than $8,000,000 of its shares.

Diversified Investment Fund's portfolio consists of over 55 different issues including bonds, preferred and common stocks and is managed with the prime objective of providing for its shareholders better-than-average income return. The Fund has a current yield of 4.8% compared with 3.8% for Moody's Common Stocks, 3.5% for Standard & Poor's Preferred Stocks and 2.6% for Standard & Poor's A-1 Bonds.

Assets Up 12% in Quarter

Net asset value of **Investors Mutual, Inc.,** increased approximately 12% during the quarter ended March 31, 1946, according to Earl E. Crabb, Chairman of the Board and President of the Fund. Net assets grew from $77,748,453 on Dec. 31, 1945, to $86,850,503 as of Mar. 31, 1946, which places Investors Mutual in fourth largest position among all American open-end investment funds.

* * *

R. L. Smith, Jr., Vice President and General Sales Manager of **Investors Syndicate** reported that the first quarter of 1946 was the best new business quarter in the history of **Investors Syndicate of America** and the affiliated "Fund" companies.

Sales of Certificates of Investors Syndicate of America in the United States more than doubled the first three months this year over the same period last year and surpassed the best previous quarter in the history of the Company by more than $4 million.

New Consulting Economist

Announcement is made in the current Abstracts that Dr. Theodore O. Yntema has become associated with the **Lord-Abbett** Group of Investing Companies as Consulting Economist.

Among his other activities, Doctor Yntema has been on the faculty of the University of Chicago since 1923 and is presently Professor of Business and Economic Policy in the School of Business Administration of that university. In connection with the war effort, Doctor Yntema served first as Chief Statistician of the Division of Industrial Materials in the Defense Commission and later as Special Consultant with the War Shipping Administration.

Doctor Yntema will advise the investment committee of the Lord-Abbett Funds on fundamental economic trends and will meet regularly with the management staff to discuss the application of these economic factors to securities in the various portfolios.

Timing Investments

Hare's, Ltd., national distributors for **Institutional Shares, Ltd.,** has announced shareholders' approval of their management's proposal to "time" its investments for **Aviation Group Shares, Bank Group Shares** and **Insurance Group Shares,** in addition to **Stock & Bond Group Shares** which has previously enjoyed this benefit.

New Director for Selected

At the Annual Meeting of Stockholders held April 3, directors of **Selected** who have served in that capacity for some years were reelected as follows: Robert S. Adler, Arnold R. Baar, David Copland, J. Victor Loewi, Anan Raymond and Edward P. Rubin.

Mr. P. P. Stathas was elected in place of William H. Duff who had served the Company as director since 1941 and who met an untimely death on Feb. 4, 1946, in an airplane accident. Mr. Stathas is senior partner (since Mr. Duff's death) in the firm of Duff and Phelps, utility analysts and counsellors. He had been for many years an associate and partner of Mr. Duff and is held in very high esteem regarding his character, reputation and ability in investment matters.

Mutual Fund Literature

Lord-Abbett—Current Investment Bulletin on **American Business** Shares; memo showing six years of dollar averaging with **Affiliated Fund.** . . . **Selected Investments Co.**—Investment Portfolio of **Selected American Shares** dated Mar. 31, 1946; current issue of "These Things Seemed Important." . . . **Hugh W. Long & Co.**—folder on **New York Stocks** discussing industry investing. . . . **George Putnam Fund**—Current Portfolio News. . . . **Distributors Group**—Portfolio folders on **Group Securities' Railroad Bond Shares** and **General Bond Shares;** current Investment News discussing the long-term outlook for a high rate of business activity. . . . **Hare's Ltd.**—Folders discussing "Timing" as applied to the various groups of **Institutional Shares, Ltd.**

Lawrence Turnure Has Branch in Puerto Rico

Lawrence Turnure & Company, Blyth & Bonner, 50 Broadway, New York City, one of the oldest firms of the New York Stock Exchange, announced the opening of a branch office in San Juan, Puerto Rico, in the Ochoa Building, under the management of Generoso Marchena. This marks the first time since 1927 that a stock exchange firm has opened an office in Puerto Rico for the transaction of a general securities and commodity business.

The firm, founded originally by Moses Taylor under his own name in 1832, celebrated last month its 114th anniversary. Lawrence Turnure was admitted as a partner in 1851 and in 1889 the firm name was changed to Lawrence Turnure & Co. In its early days the firm was active in the financing of foreign trade, particularly with the West Indies and Cuba, and owned a large fleet of vessels. In 1935 Lawrence Turnure & Company was reorganized, when it elected to go solely into the brokerage business, following the enactment of the Banking Act of 1934.

On June 1, 1942, Lawrence Turnure & Company merged with Blyth & Bonner and the present firm name adopted. Partners in the firm now are: Lawrence Turnure, grandson of the founder of the firm and son of the late George Turnure; Robert L. Harding, John R. Marshall, John Kerr, William T. Veit, H. Thurston W. Huntting, Gerald L. Pears, George R. Payne, and Ralph H. Hubbard.

The firm also maintains two other branch offices at 160 Varick Street, New York, and in Perth Amboy, New Jersey.

Ware & Keelips to Admit

Ware & Keelips, 2 Wall Street, New York City, members of the New York Stock Exchange, will admit Charles A. Hurst and Paul B. Ware to partnership on May 1. Norman C. McLeod will retire from the firm on April 30th.

Herbert G. Moulton Consultant Engineer To Patino Mines

The appointment of Herbert G. Moulton as consulting engineer to Patino Mines & Enterprises Consolidated, Inc., and its Canadian subsidiary, Patican Co., Ltd., has been announced. It is expected that Mr. Moulton will be proposed for election to the board of directors of Patino Mines and its subsidiary at the annual meetings on May 28, 1946. Mr. Moulton, a native of Idaho, is widely known in the engineering field, chiefly in the mining and smelting and railroad branches.

Col. H. G. Moulton

In the course of his career, Mr. Moulton was a member of the engineering staff of Eugene Meyer, Jr., & Co., which prior to World War I was prominently identified with the financing and development of many new copper mining enterprises. Mr. Moulton's association with Eugene Meyer, now owner of the Washington, D. C., "Post," continued after dissolution of the Meyer firm in 1917, when both Messrs. Moulton and Meyer entered Government service.

Mr. Moulton's engineering services included the preparation of many reports on mining, railroad and industrial developments. Some of the companies covered in such reports were Anaconda Copper Mining Co., Phelps, Dodge & Co., Inspiration Copper, Tennessee Copper, Bunker Hill & Sullivan and Patino Mines & Enterprises.

He has served as an expert for various banks or protective committees in the reorganization proceedings involving a number of railroads, including Rock Island, New Haven, Chicago & Northwestern, and Chicago, Milwaukee, St. Paul & Pacific.

After three years of Army service as a Lieutenant Colonel and Colonel, Mr. Moulton joined Blyth & Co., Inc., as a Vice-President on March 1, 1946, which connection he will continue.

Mr. Moulton is a past President of the American Institute of Mining & Metallurgy and he also served terms as Vice-President and director of the institute.

Seminole Oil Common Offered Publicly

Offering of 95,000 shares of Seminole Oil & Gas Corp ($1 par) common was made April 8 by F. H. Koller & Co., Inc. The price was $3 a share net. Proceeds will be used to retire present indebtedness, to pay for machinery, equipment and pumps used to increase production, and the balance will be added to working capital for future drilling operations and development.

The company was organized in December, 1945, and is a producer and developer of acreage, connecting oil and gas production to the pipe lines, principally in Oklahoma and Texas.

Edwin A. Tomlin & Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Edwin A. Tomlin has formed Edwin A. Tomlin & Co. to engage in the securities business from offices at 417 South Hill Street.

Trainees in New Loewi Program

MILWAUKEE, WIS.—Nine ex-servicemen, ranging in rank from private in the Army to Lieutenant Commander in the Navy, are taking an intensive course in economics and securities at Loewi & Co., 225 E. Mason Street, to prepare themselves for various positions with the securities firm. They are shown above in a conference room of the firm studying one of their case problems. Clockwise, they are Donald Smith, Fred Woodhead, William Minkle, Bernard Brannigan, J. Victor Loewi, President of the firm and one of the instructors in the course;

Milo Snyder, Vice-President and also an instructor; Roland Neumann, Robert Veenendaal, Dale C. Knight, Douglas W. Schantz and Howard Weldon. The courses vary in length from 6 to 18 months.

The program of Loewi & Co. is indicative of the new policy that has been inaugurated, now that some of the troublesome times seem behind us.

Instead of taking in new men and putting them to work without training, J. Victor Loewi, the firm's President, insists that they go through, in addition to on the job training, a course of "after hours" instruction that lasts from anywhere between 6 to 18 months.

The courses are held three afternoons a week from 3 to 5 p.m. Nine recently hired employees are currently in attendance and two more will join the class shortly. Speakers at these sessions include Milo Snyder, a Northwestern University graduate in banking and finance, and Vice-President of the firm, and other officers of the Loewi organization.

That the course the new employees face is not simple is reflected by a review of the subjects offered. There are 46, ranging from a lecture on the place of investment banking in the economy to "Financial Ratios; Company Comparison." Trips to plants are also called for.

In addition, outside training at either Wisconsin or Marquette University in accounting, money and banks, business organization and other related subjects is required.

Railroads Ask 25% Freight Rate Increase to Meet Higher Wages — Fares to Be Unchanged

The Association of American Railroads on April 15 asked the Interstate Commerce Commission to grant a general 25% advance in freight rates, effective May 15, according to an Associated Press dispatch from Washington, D. C. The carriers at the same time also asked the Commission to make permanent the 10% higher passenger fares first ordered in 1942. The dispatch further added:

Passenger rates now are due to revert to their prewar level six months after the legal termination of hostilities.

"The situation of the railroads has now become critical," the petition said, "as the result of an extraordinary combination of war and postwar conditions, and more particularly the result of three factors of recent development:

"1. The increase in wages of railroad employees of 16 cents per hour determined under the procedures of the Railway Labor Act in April, 1946, retroactive to Jan. 1, 1946.

"2. Large increases, both present and prospective, in the prices of railway materials and supplies.

"3. A sharp decline in volume of railway traffic and an even greater decline in railway revenue."

Wage Rise Cited

The railroads said that the wage increase will add about $619,000,000 to 1946 expenses and that higher prices will add not less than $167,000,000.

"Moreover," the petition added, "operating revenues for 1946, on the basis of 1945 rate levels, will be more than $2,000,000,000 under the operating revenues in 1945."

The proposed rate increases would yield $625,000,000 in additional revenue this year, the petition stated.

The carriers asked the ICC to allow them to make the new rates effective May 15 and then investigate whether they are justified, asserting: "Increased rates cannot be made retroactive, whereas shippers can be amply protected by awards of reparation."

The Association of Western Railway Executives said in a statement that the proposed advances were not relatively as great as the ICC found necessary at the end of Government control after World War I.

Following the action of the Railroad Labor Board in July, 1920, awarding railroad workers a $650,000,000 a year pay increase, the Commission raised freight rates an average of 33% over the entire country, the statement said.

While the carriers asked for a general 25% increase, the average would be below that figure, they said, because advances on certain commodities would be less to avoid undue disruption of competitive relations and commercial conditions.

These lesser increases would apply, the railroads said, to sugar, cotton, fruits and vegetables, lumber and woodpulp, petroleum products in tank cars and to iron and steel.

New Wage Increase Asked

An additional wage increase of 14 cents an hour for 1,050,000 railroad workers employed on 130 of the nation's carriers was asked on April 15 in notices filed by 15 non-operating brotherhoods, an Associated Press dispatch from Chicago stated on April 16, which further went on to say:

The workers, together with about 200,000 members of three operating brotherhoods, were granted rises of 16 cents an hour on April 3 by Government arbitration boards. The new rise asked represents the difference between the original demand of 30 cents and the 16 cents awarded by the board which union spokesmen have termed inadequate.

The new proceedings do not involve the five operating brotherhoods. Two, the Locomotive Engineers and the Trainmen, have their wage and rule case before a Presidential fact-finding board which is scheduled to report to President Truman this week. The remaining three, the firemen and engineers, conductors, and switchmen, originally asked a pay boost of $2.50 a day. They have not announced whether they will seek any increases in addition to the 16 cents awarded two weeks ago.

Security Adjustment Corp. Adds Three to Staff

BROOKLYN, N. Y.—Security Adjustment Corp., 16 Court Street, announces several additions to its sales force. They are: Lloyd A. Souville, formerly with Clucas & Co., members of the New York Stock Exchange, and Clark, Kohl & Eyman, specialists in guaranteed rail securities; John L. Price, just returned from United States Army service in the European theatre of operations. He was formerly with Bishop's Service, Inc. He will study for the security business under the "Veterans on the Job Training Program; Ralph Traube, formerly with National Insulators Corp., Long Island City.

Business Man's Bookshelf

Economic Advantages of Integated Sea-Air Transportation—Arthur E. Burns—Sea-Air Commitee of the National Federation of American Shipping, Inc., 2660 Woodley Road, N. W., Washington, D. C.—paper; also the **Brief in Support of Request for the Removal of Administrative Restraints on the Integration of Sea and Air Service** (paper)

For a Stronger Congress — Philip S. Broughton—Public Affairs Pamphlet No. 116—Public Affairs Commitee, Inc., 30 Rockefeller Plaza, New York 20, N. Y. —paper—10¢

Lincoln's Incentive System —James F. Lincoln—report on the management plan of the Lincoln Electric Company—McGraw-Hill Book Company, Inc., 330 West 42nd Street, New York 18, N. Y.—cloth—$2.00

Office Library of an Industrial Relations Executive—Selected list of references on genreal works; specific personnel problems and programs; trade unions and collective bargaining; labor legislation and administration; social insurances; etc.—Industrial Relations Section, Department of Economics and Social Institutions, Princeton University, Princeton, N. J.—paper—50¢

Price Control or Decontrol? —Analysis of the causes of inflationary pressure containing suggestions for a number of crucial policies—Chamber of Commerce of the United States of America, Washington, D. C. — paper—5¢ (10% discount for orders in excess of $1.00).

First Step Stocks for a long-term program of successful investing—special study entitled **"How Long Will the Boom Last?"** plus three issues of **The Outlook** —to new readers only $1.00—Standard & Poor's Corp., 345 Hudson Street, New York 14, N. Y.

Guests at Chicago Bond Club Luncheon

CHICAGO, ILL.—At the Bond Club of Chicago Luncheon held April 12, 1946, guest speaker was Y. Frank Freeman, Vice President and Director of Paramount Pictures, Inc.

Guests at the speakers' table were: Lee H. Ostrander, Treasurer, The Bond Club of Chicago; James L. Buchanan, Vice President, The First National Bank of Chicago; J. H. McNabb, President, Bell & Howell Co.; John Balaban, Secretary and Treasurer, Balaban & Katz Corporation; Y. Frank Freeman, Vice President and Director, Paramount Pictures, Inc.; John S. Loomis, President, The Bond Club of Chicago; Irvin L. Porter, Vice President, The First National Bank of Chicago; Joseph P. Binns, Vice President and General Manager, Palmer House; F. G. Gurley, President, The Atchison, Topeka & Santa Fe Railway Company; Julien H. Collins, Julien H. Collins & Co., Vice President, The Bond Club of Chicago; Edward Flynn, Executive Vice President, Chicago, Burlington & Quincy Railroad Company; Hugo Sonnenschein, Attorney.

Canadian Securities

By BRUCE WILLIAMS

In this shrinking world national events cause almost immediate international repercussions. This applies in particular to financial developments and more especially when the countries involved are the United States and Canada.

During the past few months the movement towards a lower level of interest rates in the Government bond market here has been somewhat exaggerated. A considerable speculative bullish position has been created and every effort has been made to discount a 2% yield basis for the longest bond. However in the meantime there has been a change in the basic situation.

It had been erroneously anticipated that the period of transition from war to peace-time conditions would be of considerable extent. Instead, the reversing process of balancing the budget and cutting down the debt has proceeded apace. No longer is it of paramount importance to force the movement towards lower rates in order to permit huge government borrowing at low cost and the emphasis is now on the elimination of inflationary tendencies inherent in the tremendous debt structure. As a result short term rates have already hardened and it is lgoical to suppose that the long term interest level will be correspondingly affected.

As already mentioned the Canadian Government bond market has been influenced by the trend in this country to such an extent that the external demand has been almost wholly responsible for the fall in the yield of the last Victory Loan issue from 3% to 2.55%. Similarly, speculative interest has increased enormously and the Bank of Canada has no longer any direct control of the market. It is conceivable therefore that the authorities in both countries, now that it is no longer of vital importance to prevent any hardening of rates, will look with some favor on a market correction that will precipitate the liquidation of speculative positions. Morover as the controls in both countries have been unable recently to stem undue market movements on the upside it would help to correct this basic weakness in the position of the central banks if they could acquire a cheap supply of the rcently issued long bonds, as a consequence of any important liquidation.

Instead therefore of an ultimate 2% rate ceiling here and 2½% in Canada there are growing indications that the recent low yield levels established in the two countries might very well prove to be the extreme limits of this waremergency movement. If the present reactionary trend here becomes more definite there is little doubt that it will extend to the Canadian market.

During the past week the market in general was almost totally devoid of activity and interest. High grade externals moved within a very narrow range and the only actvity of note was in Saskatchewans which improved slightly. Albertas continued dull with little change in price. The market for internals also displayed a minimum of actiivty and free funds were unchanged at 9 3/16%.

With regard to future prospects there is increasing evidence that the market is now at or in the neighborhood of its peak. For some time buyers have balked at the present high prices and any basic doubts concerning the continuance of the downward trend of interest rates could readily bring about a reaction. In this event the low grade section would be especially vulnerable.

S. Sloan Colt Appointed Commissioner of Port of N. Y. Authority

S. Sloan Colt, President and Director of the Bankers Trust Company of New York, has been appointed a Commissioner of The Port of New York Authority by Governor Thomas E. Dewey. Mr. Colt will take the place of John J. Pulleyn, who after 18 years of service as a Commissioner, resigned on March 19 due to ill health. Mr. Pulleyn's term would have expired on July 1, 1950. The twelve Port Authority Commisisoners, six from New York and six from New Jersey, are appointed to the bi-State Agency by the Governors for terms of six years and serve without compensation.

S. Sloan Colt

Mr. Colt, who is well known for his many civic and philanthropic interests, entered the banking business through the Farmers' Loan and Trust Company in 1914. He became Vice-President of the Company in 1925, and when it merged with the National City Bank in 1929 he continued as Vice-President until 1930 when he went with the Bankers Trust Company as Vice-President and Director. He has been its President and Director since 1931. He was President of the New York State Bankers Association in 1935.

Mr. Colt is a director of the American Bank Note Company, the American Can Company, the Discount Corporation of New York and the Provident Fire Insurance Company, in addition to the Bankers Trust Company. He is a director and member of five committes of the Federal Reserve Bank of New York, and a director and member of the Executive Committee of the General Electric Company, General Foods Corporation and Pan American Airways Company. He is a trustee and member of the Finance Committee of the Mutual Life Insurance Company, and a member of the Finance Advisory Board of the Royal Exchange Assurance (United States Agency), the State Assurance Company, Ltd., and the Car and General Insurance Company Ltd. (United States Agency).

Cotroversy Over Utility Depreciation

(Continued from page 2076)

likely to involve the purchase of a unit which will perform the equivalent or better service than the purchase of exactly the same kind of asset.

The conception of the purpose of depreciation accounting as a financial provision for replacement, then, is decidedly defective. It lacks logical consistency as well as mathematical and economic valdity.

As indicated by the above authorities, the function of depreciation accounting is not to provide dollars for replacement of property but to allocate cost of depreciable property over the period of its use.

At the risk of wandering out of my own chosen field, I also wish to take exception to several other observations made by Mr. Hyde.

What Happened to the Railroads?—Mr. Hyde made the following statement regarding railroads: "There is little doubt that receiverships and near receiverships with the unfortunate attending results were increased among the railroads by the false security obtained from relying upon historical costs rather than actual value."

If it were not so apparent that Mr. Hyde was attempting to develop a thesis, I am sure that he would have stated the real reasons for the financial difficulties of railroads, which I believe to be as follows:

1. Failure to provide for depreciation on way and structures, thus building up a false surplus position which was used as a basis for declaring otherwise unjustifiable dividends.

2. Excessive financing with debt securities rather than common stock.

3. Competition from other means of transportation.

My own feeling is that the reliance on historical costs, which, in fact, was never made effective as in public utilities, had not one iota of significance in the financial difficulties of railroads, and I believe that he cannot find a qualified railroad man to back him up in this statement. Railroads, such as the Santa Fe, which followed sound depreciation methods, never had any such difficulties.

Original Cost Concept for Public Utilities—Mr. Hyde's criticisms of the original cost concept completely overlook the following points in its favor, which, to me, entirely outweigh any argument which he advances:

1. The original cost concept relates only to acquisitions which are a minor portion of public utility property accounts.

2. Its introduction has resulted in the elimination of write-ups and a great number of other items which had no place in any property account.

3. It greatly simplified rate making as it does away with the necessity of years of appraisal work and litigation as to values.

4. It discourages speculation in buying and selling utility properties.

5. In the State of California where it has been practiced for years, the utilities have always been financially strong and well regulated.

Stockholders—Mr. Hyde states that "stockholders, however, are not pure investors, and as any security salesman knows, there is a wide gulf between the purchasers of fixed income securities and common stocks. Institutions with fixed dollar liabilities are avid buyers of bonds which are cushioned with a sufficient equity to assure continuity of income and repayment of principal, but they shun common stocks which are on the bottom of the capitalization pile and entail business risks they can ill afford. Purchasers of common stocks, however, are individuals who are willing to take these additional risks, but in return expect and deserve that their dividend income will have a stable purchasing power."

This is a rather strange statement in a period when property values are higher than ever and returns on investment at almost all-time lows.

Proper regulation of utilities by commissions using the original cost concepts practically guarantees a fair return on an investment prudently made, and the enforcement of a depreciation policy by which the customers pay back to the company the investment made by the stockholders certainly puts the common stocks of well-managed utilities into an almost gilt-edge class. Many utilities paid dividends on their common stock throughout the recent depression period which cannot be said of many other industries.

Justice—Mr. Hyde has stated very loosely and definitely without deliberation that "stockholders (of utilities are) unaware of the successful attacks being made to deprive them of their property without due processes of law . . ." and also "if depreciation were predicated on original cost during a period when replacement costs were 50 to 100% higher, the company would not collect enough revenues to provide for depreciation, and its plant would be gradually given to the consumer through insufficient rates."

The above statements are not only fallacious but reflect on the various state and Federal commissions which are trying to do an honest job in dealing fairly with the stockholders as well as the customers. The utilities with honest and capable managements and their stockholders need not have any fear of such erroneous statements, because in a case decided by the Supreme Court as far back as 1886, the Court said, "it is not to be inferred that this power of limitation or regulation is itself without limitation. This power to regulate is not a power to destroy, and a limitation is not the equivalent of confiscation."

It is my recommendation to security analysts, such as Mr. Hyde, that, in the future, when they try to deal with accounting questions, they at least check with their independent accountants before they release articles as misleading as the one in this case.

E. ARNOLD SUNSTROM,
Comptroller,
TENNESSEE VALLEY AUTHORITY.

Knoxville, Tenn.
April 5, 1946.

REBUTTAL BY MR. HYDE

Editor, "Commercial and Financial Chronicle":

I beg to reply herewith to Mr. Sunstrom's letter to the "Commercial & Financial Chronicle" commenting on the address I made on the affect of original cost theories before the New York Society of Security Analysts. Had he confined his remarks to the merits of the issue rather than attempt to prove his point by questioning my qualifications, I would have greater faith in his sincerity. There appears to have developed over the last 14 years a school of thought among public officials that any one supporting the opposing side of a controversy is an ipso facto imbecile and that mere quotations of revered exponents are sufficient to refute all evidence to the contrary. Nevertheless, I appreciate his reply as indicative of the interest in this subject which I believe should be better understood by investors, but I regret that his remarks merely presented his opinion and contributed little, if anything, to the affect of original cost theories on public utility stocks which was the topic under discussion.

While I feel that I stated the objections to original cost doctrines in my address, I would like to take exception to a few remarks made in his letter. In the first place, he apparently ignores the fact that there is more than one opinion as to the purpose of depreciation, and even the definition of the American Institute of Accountants which he quoted to support his opinion does not limit its applicability to original cost but pointedly inserts the words "other basic value." Another definition which I have close at hand, and which I believe is similar to the Federal Power Commission's definition in its Uniform System of Accounts is contained on page 40 of the June 24, 1944, "Findings and Order of the Arkansas Department of Public Utilities" in connection with an investigation of the operations of the Arkansas Power & Light Company. Please note the use of the words "service value" in the following quotation: "Depreciation, as applied to depreciable electric plant, means the loss in service value not restored by current maintenance . . ." If the commission had meant "original cost," would it not have used those limiting words, and is it not a fair assumption that the words "service value" were purposely used so that the meaning could not be interpreted solely as original cost?

Obviously, Mr. Sunstrom is correct in his assumption that the financial difficulties of the railroads were due primarily to excessive debt financing and competition, but my point is that the debt financing was excessive only because competition reduced earning power and that on the basis of their balance sheets, which were maintained on the basis of original cost, their properties appeared to give ample protection to their debt. Original cost theories most definitely gave a false sense of security to railroad security holders and, while many railroad receiverships were inevitable regardless of accounting methods, the large book values of common stocks of railroads which have been in receivership for years should discredit the use of original cost. Whether or not railroads built up false surpluses through failure to provide adequate depreciation on way and structure is also a controversial point as the railroads claim that these properties are maintained at practical full value. Only if you consider depreciation together with obsolescence is there any clearcut argument that there was any appreciable underdepreciation of the railroads, and then you run up against the question whether the purpose of depreciation is to reflect obsolescence due to economic or scientific developments.

With respect to the railroads, however, Mr. Sunstrom's high esteem for the Santa Fe can hardly be due solely to its depreciation policy as these charges, except in recent war years, represent only a small percentage of operating revenues and could hardly mean the difference between solvency and receivership. He will remember, however, that this road was forced to defer interest on its adjustment bonds as recently as 1938 at a time when its debt represented only 30% of its balance sheet capitalization. Furthermore, with a common stock equity of almost 60%, the dividend record on the preferred stock has been spotty. Does he not think that this company's strong balance sheet, which on Dec. 31, 1944, showed a book value for the common stock three times its present market price, is misleading?

I must take direct issue with your correspondent's statement that "the original cost concept relates only to acquisitions which are a minor portion of public utility property accounts." In recent years the trend of regulatory authorities has been to require companies to use original cost of all properties as a rate base, thereby depriving stockholders of the incremental value of their property due to increasing replacement costs. To be true, it simplifies rate making, but that is no justification for inequitable and undesirable results. His contention that common stocks of well-managed utilities are almost gilt-edge may appear true today when the industry is in a strong upward growth trend, but who is to guarantee continuity of good management, freedom from competition from some future invention which will reduce the value of present plants, or that the particular service area might be impaired through a migration of population or loss of economic value of some natural resource. These, and many others, are the risks which investors cannot afford to take but are assumed by stockholders who should never be lulled into the belief that their securities are "almost gilt-edge." Regulation can guarantee only the right to fair earnings and not the earnings themselves.

Contrary to Mr Sunstrom's impression, it was with definite deliberation that I stated that "stockholders (of utilities are) unaware of the successful attacks being made to deprive them of their property without due process of law." I also stated, with definite deliberation, the balance of that sentence which he neglected to quote and which I repeat, "it is still possible to sell common stocks to an unsophisticated and unsuspecting public; but, when the effects of the current trend of regulatory policies are more fully recognized, public utility companies will be unable to raise the equity capital necessary to construct the plants which will be required to meet the growing demand for utility service." This statement is not as he says "fallacious," nor does it "reflect on the various state and Federal commissions which are trying to do an honest job." It is a tribute to the success of those who for personal, political, social or economic reasons have made such great headway in placing the public utilities in a position that government ownership will be inescapable. It also is a warning to those who are buying utility stocks at two to three times their book values with the belief that present values rather than original cost will be used for rate-making purposes.

It is unfortunate that many conscientious individuals have been made unwitting partners in this operation. They have been taught that certain theories of accounting are indisputable facts whereas, in reality, they represent a narrow application of a broad economic field. This has resulted from practical application of the diametrically opposite theory illustrated in a story attributed to President Robert Hutchins of the University of Chicago. When Mr. Hutchins was Dean of the Yale Law School at the age of 30, a leading senator is supposed to have remarked paternally that he supposed Dean Hutchins taught the Yale Law School students how little senators knew about law, to which Dean Hutchins is said to have replied, "No, we just teach them law and they find that out for themselves."

W. T. HYDE, Jr.

New York City,
April 15, 1946.

Ullman to Be Dealer

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF. — Harold P. Ullman is conducting a securities business from offices at 608 South Hill Street.

The Road Ahead for America

(Continued from page 2087)

ergy, even in order to prevent other governments from doing so.

We meet the same fundamental question in apparently momentous economic issues, like that of extending OPA. Unless the American people make the kind of decision I think they must, price and wage control will definitely not end in 1947, or ever—not because supply and demand will not come precisely into balance at the stroke of midnight June 30 of that year, but for very different reasons.

The background, basis and significance of the Government's price control program, like that of its labor policy, is essentially political. It is fundamentally a matter of maintaining and expanding governmental power and operation. We are faced with political inflation primarily, not any other kind. As a strictly economic issue the fight against inflation is a phoney, a political fraud, a device to justify further expansion or to prevent deflation in government—and in that sense a substitute for the war as an emergency excusing continuation and extension of state authority and activity.

The plain fact is that the American dollar is today, and has been for 30 years, the soundest and most stable—in fact, the *only* sound and stable—currency in the world. There is no sign, here, or anywhere in the world, of any flight from the American dollar. The real reason may be merely because most people here and abroad who have dollars thus far assume and expect that when they get ready to spend their dollars, the things they want to buy with them will be there to buy. The only thing that can break this confidence in the dollar is government itself. Currency depreciation is not due to an excessive supply of money, but to an excessive supply of government. Indeed, it may be said that inflation *is* simply governmental expansion, since there is no record of one without the other.

The truth is that no people can or ever will control inflation until they can control their government.

There are three political consequences of a governmentally controlled economy which are certain and clear in the whole record of experience. One is that it is impossible for government to fix prices, wages or interest rates, or give subsidies or loans to private business without taking part in its operation, its management—and ultimately its ownership. A second is that it is impossible to operate a governmentally controlled or planned economy on a democratic basis, or through any sort of legislature or parliament of freely elected representatives. It must be done by dictation. A third certainty is that a state controlled economy cannot be operated with individual freedom, which depends upon private prosperity, private business and private labor. All these are inevitably destroyed by any form of governmental economic planning—and that, much more than the immediate economic effects, is the fundamental and final issue to be fought out in this question of continued political price and wage fixing.

Maloney & Meyer, Inc., Is Formed in L. A.

LOS ANGELES, CALIF.—Charles F. Meyer and Major Charles Maloney have formed Maloney & Meyer, Inc., with offices at 650 South Spring Street. Mr. Meyer is President and Treasurer of the firm and Major Maloney, Vice-President and Secretary.

Major Maloney was formerly proprietor of Maloney & Co. and prior thereto was with H. R. Baker & Co. and Hartley Rogers & Co.

Railroad Securities

Great Northern preferred stock (the road's only outstanding stock issue) has been rather static in recent markets about mid-way between the year's high and low. Affording a return of better than 5% on the recent dividend rate of $3, and with the opinion in many quarters that there is an excellent chance of an increase in this rate in time, the stock is viewed by many rail men as being one of the most attractive equity situations in the rail field. In fact, in many instances it is being used as an exchange from income bonds and second grade bonds of the type of New York Central juniors. It is pointed out that under conditions where most of the reorganized roads will be able to cover their income bond interest Great Northern should be well able to support the present dividend rate. The income return on the stock is greater than on many of the bonds and by the very nature of the securities the stock has the greater price enhancement possibilities.

The Great Northern management was one of the first in the rail field to recognize the absolute necessity for reducing debt and charges during periods of good earnings if railroad credit was ever to be restored. Moreover, during the last ten years it has done one of the most outstanding jobs in this connection of any railroad not going through judicial reorganization. Naturally, this program has been augmented by generally low interest rates which, in conjunction with the progressive improvement in the road's credit standing, has allowed Great Northern recently to put through one of the lowest interest cost refundings in railroad history. With this most recent refunding it is indicated that Great Northern's fixed charges are down to around $7,690,000. Back in 1935 the charges were above $19,000,000 per annum.

Great Northern has long enjoyed more favorable traffic trends than have the railroads as a whole, or other roads operating in the northwestern territory. One important factor has been the heavy dependence on iron ore tonnage from the Minnesota range. This traffic has naturally not been vulnerable to highway competition. It also gives Great Northern a stake in industrial production not common in the western rails. Also, the road's important lumber traffic largely originates outside the coastal area and is thus not subject to diversion to the Panama Canal route. Finally, the road benefited trafficwise by the extension of Western Pacific lines in northern California to connect with Great Northern. All of these are permanent considerations. Post-war they should be augmented by new traffic generated from greater industrialization of the Pacific Northwest and the opening up of large new areas to farming through irrigation projects. Anticipated expansion of trade with the Far East should be an important factor in Great Northern's future traffic and earnings.

Great Northern is essentially an economical property to operate. On the average in normal times there are few railroads outside of the Pocahontas coal properties which are able to carry as large a proportion of gross through to net operating income as Great Northern. An important factor in this showing is to be found in the iron ore tonnage which, moving in full train loads direct from the mines to ore docks on the Great Lakes, has a very low expense ratio. This basically economic operation is a particularly important factor in view of the wide increases in wage rates in the war years.

Adjusting for elimination of amortization charges in 1945, and applying the resultant income to present fixed charges and a Federal income tax rate of 38%, would give Great Northern pro forma earnings of around $10.50 a share. On a similar basis the 1944 results would have been around $12.50. Figured on this basis to eliminate the important distortions of extraordinary amortization charges, Great Northern's basic earning power held up better than that of most roads last year. Similarly, while 1946 results will almost certainly fall off from pro forma 1945 figures the decline should be cushioned by the relatively low labor factor and the inherent efficiency of the properties. It is estimated that the wage increases will amount to less than $2.50 a share on the outstanding stock.

New Jersey Amends Savings Banks' Railroad Bond Purchase Law

By T. PHILIP REITINGER
President of Montclair Savings Bank
Chairman, Investment Committee, N. J. Savings Banks' Association

Asserting that amended N. J. Savings Bank Law is probably most advanced legislation relating to investments in rails yet enacted, Mr. Reitinger points out its advantages in substituting a flexible for a fixed standard for savings banks in making investments in sound issues.

T. Philip Reitinger

On April 5, Governor Edge of New Jersey signed an act which had been passed by the Legislature amending the law controlling the investment in railroad bonds by savings banks of that State. The law as amended is a radical departure from its predecessor and it is probably the most advanced law covering the the investment of funds by thrift institutions in the United States.

The object of the new law is to permit New Jersey savings banks to purchase bonds of only the stronger railroads, and to permit them to purchase such bonds not only in periods of prosperity when prices are high, but also in periods of depression when prices are low. This objective is accomplished by substituting a variable yardstick against which to measure the performance of individual railroads for the fixed yardsticks used in most previous laws. Under the new act railroad bonds may be purchased only if the coverage for fixed charges of the three preceding years shall have been better than the average coverage for the period of all Class I railroads in the United States. The law also requires that the percentage of gross revenues remaining after the payment of fixed charges shall be greater than the corresponding figure for Class I roads as a whole. The other provisions of the law remain substantially unchanged.

It had been felt that some improvement in the old law was advisable because of the fluctuating nature of railroad earnings. Under the old law, after a period of good earnings many bonds of inferior quality could become legal investments for savings banks, whereas during a period of depression many intrinsically high grade bonds would be forced off the legal list because of temporarily poor earnings. The resultant tendency was that many railroad bonds, including, perhaps,

(Continued on page 2109)

Sherman to Assist Daley of Otis & Co.

CLEVELAND, OHIO—Wm. R. Daley, President of Otis & Co., announces the appointment of Frank L. Sherman as Assistant to the President. He brings with him twenty years of wide experience and contacts in sales, public relations and promotional activities, which includes much work on civic affairs.

Mr. Sherman has been General Sales Manager of the Standard Envelope Mfg. Co. until his affiliation with Otis & Co.

He has been active in the affairs of the Cleveland Advertising Club for the past sixteen years, the Rotary Club, the Sales Executive Club, The 40 Club, Chamber of Commerce, Division "A" of the Community Fund, the Executive Board of the Heights Y. M. C. A., and the Shaker Heights Country Club.

Mr. Sherman attended the University of Michigan and Western Reserve University, belonging to Alpha Delta Phi. He married Magdalen Hogg. They have a daughter Mary Lynn, age 17, and a son Frank L. Jr., age 14. They live at 2555 Charney Road.

Philadelphia Exchange Elects New Officers

PHILADELPHIA, PA. — Frank E. Baker of Baker, Weeks & Hardin was elected President of the Philadelphia Stock Exchange, at its annual election.

John R. Huhn, Jr., John S. P. Makiver, Penington, Colket & Co.; Frank L. Newberger, Jr., Newburger & Hano; Edgar Scott, Montgomery, Scott & Co.; David S. Soliday, Hopper, Soliday & Co.; Edward J. Tague, Jr., Turton & Tague, and Henry C. Weeks, Weeks & Co., were elected to the Board of Governors for three-year terms.

Spencer D. Wright, Jr., Wright, Wood & Co., was elected Governor for one year.

Answers to questions about

CHESAPEAKE & OHIO

Highlights from the 1945 Report to our 82,794 stockholders

Q. What did C & O do in the final year of war?

A. With the end of the German and Japanese wars, a tremendous assignment was successfully completed by the C & O. Although our peak war job was actually done *before* 1945, still the tonnage of coal hauled was a near record. And merchandise freight, much of it war material, was close to the record years of 1943 and 1944.

Q. What were earnings in 1945?

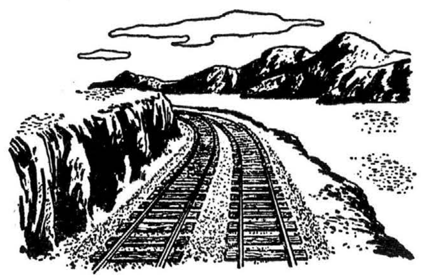
A. Operating revenues were 203 million dollars, 6% less than in 1944. In October and December, 1945, C & O charged to operating expenses about 40 million dollars, which was the unamortized balance of the approximately 64 million dollars for which Certificates of Necessity had been issued by governmental authorities covering amortizable cost of rolling stock, equipment, and improvements purchased or constructed from 1941 to 1945. Reflecting this accelerated write-off of capital investment, net income for the year was 16 million dollars, or $2.14 a share. No charges for depreciation or amortization on these charged-off facilities will be made to operating expenses in future years.

Q. What were C & O's war earnings?

A. For the four war years, C & O earned an average of $3.50 a share compared to $4 a share averaged during the four preceding years. When the heavy war traffic began C & O was already utilizing a high proportion of its carrying capacity. When high taxes were imposed, C & O was one of the first roads to be subject to excess profits taxes and one of the few which found it more advantageous to compute its excess profits tax on an earnings base rather than on an invested capital base. Consequently, while the war period was one of record traffic volume, gross earnings, and tax payments for the C & O, it was not a period of high net income as it was for railroads generally.

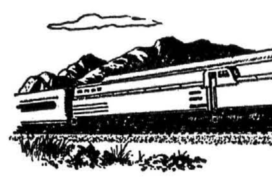
Q. How is C & O simplifying its corporate structure and reducing its debt?

A. Last year C & O reduced its outstanding debt by $9,387,000. The reduction in the last eight years has been $32,934,000. Its subsidiaries, Nickel Plate and Pere Marquette, refinanced all of their mortgage debt in 1945 at lower interest rates. Nickel Plate interest charges have been cut to $3,820,000 from $7,500,000 in 1936. Pere Marquette has scaled its interest charges to $1,840,000 from $3,270,000 in 1936.



Q. What are prospects for 1946?

A. In 1946, coal movement should continue at a high rate. Construction and enlargement of plants along the line should mean a permanent increase in the output of industries served by C & O. Although passenger traffic will decline now that troop movements through Newport News have ended, freight traffic volume should continue well above any pre-war year. Still, everything the road must buy costs more than before the war. Two wage increases aggregating 28% have been absorbed and a third is being demanded. Freight rates are the same as they were before the war while taxes, even with the excess profits tax removed, remain far above pre-war levels. We believe rate-making authorities will recognize these increased costs.



Q. How is C & O modernizing to meet competition?

A. In 1945, C & O ordered equipment from the Edward G. Budd Manufacturing Company for the finest streamlined trains ever built. These trains will run between Washington and Cincinnati. Revolutionary new features—developed exclusively by C & O's personnel and consulting experts — will include a moving picture theatre, news ticker, distinguished art and industrial exhibits, telephone for passenger use while train is in motion, special facilities for the care and entertainment of children, curved aisles and other unusual decorative amenities, and a dining system that will eliminate waiting for meals.

Among other forward-looking steps, the C & O with the Nickel Plate sponsored through coast-to-coast sleeping car service. A long-term program of rebuilding and modernizing certain passenger stations is well under way. The management of Chesapeake and Ohio welcomes change and regards as one of its prime obligations the constant readjustment of the railroad to meet the changing needs of its territory and customers' markets. We look forward to 1946 and the years ahead as a period of difficulty and challenge, but also of opportunity.

SOURCES AND DISPOSITION OF INCOME

	1945	*1944*	*Increase or Decrease*
Where our income came from			
Revenues from hauling coal and coke freight	$109,099,741	$118,095,390	$ 8,995,649–D
Revenues from hauling other freight	63,636,420	66,781,322	3,144,902–D
Revenues from carrying passengers	22,891,428	23,506,847	615,419–D
Other transportation revenues	7,704,558	8,152,689	448,131–D
Rent from equipment used by others, less amounts paid to others	7,859,784	6,117,586	1,742,198–I
Dividends from stocks owned	958,665	989,141	30,476–D
Other income from non-railroad operations	853,485	978,224	124,739–D
Total	$213,004,081	$224,621,199	$11,617,118–D
Where our income went			
Wages	$ 81,382,963	$ 80,618,715	$ 764,248–I
Materials, supplies, and fuel	29,762,512	27,668,892	2,093,620–I
Railway tax accruals, other than federal income and excess profits taxes	11,656,482	12,316,760	660,278–D
Payments to contractors, associations, other companies, and individuals for services and expenses	10,220,633	5,830,716	4,389,917–I
Rentals and expenses paid for facilities used jointly with others, less amounts received from others	4,802,409	4,552,104	250,305–I
Interest on Funded Debt	7,003,784	7,053,857	50,073–D
Other interest	15,473	4,910	10,563–I
Depreciation, amortization, and retirements	60,633,377	20,396,060	40,237,317–I
Total	$205,477,633	$158,442,014	$47,035,619–I
Net Income before federal income and excess profits taxes	$ 7,526,448	$ 66,179,185	$58,652,737–D
Federal income and excess profits taxes	*8,853,399CR*	38,838,190	47,691,589–D
Net Income	$ 16,379,847	$ 27,340,995	$10,961,148–D
What we did with net income and surplus			
Appropriations for Sinking and Other Reserve Funds	$ 488,144	$ 501,715	$ 13,571–D
Dividends paid on Common Stock	26,239,869	26,800,739	560,870–D

CHESAPEAKE & OHIO RAILWAY, Terminal Tower, Cleveland 1, Ohio

Importance of Economic Relations to World Peace

(Continued from page 2072)

use of exchange controls to the disadvantage of certain foreign countries. It can include the denial by a colonial sovereign of equality of access to the trade or raw materials of its colonies. It may be overt or concealed; there are many ways of achieving discriminatory purposes in regulations or legislation which appear on their face to be of general applicability.

Even though the economic effect of a particular act of discrimination be slight, the act may have consequences entirely out of proportion to its real significance. Acts of economic discrimination often provoke reactions in terms of national pride and honor, especially when nationalistic feelings have previously been aroused by other causes.

A colonial sovereign which uses its political powers to deny to other nations the right of equal access to the trade and raw materials of dependent areas may do serious injury to the economy of its neighbors. The economic effects of imperialism may not be inherently incompatible with the interests of peace; but imperialism can be used to undermine the peace when the sovereign obstructs trade and economic relations generally between the dependent areas and other nations.

Universal Free Access to Raw Materials

In the sense in which the terms are customarily used, no nation is really a "have" nation, as opposed to a "have-not" nation, unless it obstructs access by other nations to its markets and raw materials. Likewise, no nation is really a "have-not" nation, no matter how barren its territory may be of important natural resources, unless it is denied the right of access, on a basis of equality, to the trade and raw materials of other areas which are more richly endowed. This access may be denied in several ways. If nations rich in essential raw materials raise their tariffs on imports unreasonably, the purchase of such raw materials becomes difficult for countries which must have them. It is not inevitable, or even natural, that nations richly endowed with raw materials should be rich, while nations poorly endowed with such resources should be poor. Nature often provides compensations for such differences. Such compensations may take the form of special skills of the so-called "have-not" peoples. When a so-called "have-not" nation enjoys equal rights on reasonable terms to economic intercourse with an area rich in natural resources, it has little further to gain in the way of economic advantages by forcing the area under its political control. If the principle of equality of access, on reasonable terms, to the trade and raw materials of the world were universally practiced, the appetite for expansion of sovereignty, so productive of international friction, would largely disappear.

The Political Dangers in Economic Oppression

This, we believe, is an important lesson for economic policy. Whether discrimination has its major impact on values as incalculable as national pride or as concrete as the standard of living, the nation discriminated against becomes a little more likely to regard itself as underprivileged and oppressed. When such views are popular, there are always leaders who will cry for military action to obtain justice, and there are always followers who will listen. It may be doubted if the denial of equality of treatment in international economic matters could in itself ever lead directly to war; but it can contribute to the creation of an international climate which is more congenial to war, and it can become one of a complex of factors which do lead directly to war.

Let us turn now to the second proposition. We have said that the adoption of wise and far-sighted economic policies is capable of stimulating world trade and prosperity, and that prosperity itself is a bulwark of peace. As soon as the proposition is stated, however, it becomes apparent on simple historical grounds that prosperity alone cannot assure permanent peace. Within the limits of modern history, wars have occurred in good times and peace has been preserved in bad times. But economic well-being, rising standards of living, expanding opportunities for work and trade, do tend to create a psychological atmosphere in which aggressive impulses are less likely to become dominant. One could hardly put it better than it was put by Cordell Hull in 1937:

> "Peoples that are employed and prosperous are not easily incited to either internal or international strife. But peoples living in want and misery come to hold life cheaply and stand ready to gamble upon the use of force."

People do not differ much from one country to another or from one age to another in the universal desire to better their condition. If they are able through the peaceful channels of production and trade to secure for themselves a gradual improvement of their mode of living, they are more likely than otherwise to devote themselves to the cultivation of the arts of peace. If, however, the economic environment is such that they are thwarted in their efforts to improve their lot, they may and often do seek outlets for their ambitions in conduct of a more violent sort. If they conclude that the obstacles to their improvement and advancement are internal, they may pursue their objectives in ways that lead to internal unrest or even to civil strife. If, however, they believe or are led to believe that their distress arises from unfriendly external acts, their passions may take them down the road to military adventure and war.

The third proposition, which we regard as the most important, is closely related to the second. We believe that wise economic policy can contribute to prosperity, that prosperity is the most congenial economic atmosphere for the growth and spread of democracy and the institutions of freedom, and that the peace is safest in the hands of free men.

Democracy is in many ways a fragile form of political organization. This is especially true of young democracies, where the institutions of freedom are not imbedded in a solid foundation of habit and tradition.

For a democracy to function effectively, there must be an atmosphere of mutual restraint, a disposition to compromise differences, and a willingness to tolerate opposing views. In times of economic crisis, internal cleavages are widened, political conflicts arouse deep emotions and bitterness, and the inclination to compromise in order to preserve free government is weakened.

Democracy Is Dependent on Prosperity

That prosperity can contribute to the strengthening of the democratic order is much more than a vague hypothesis. All of us, within our own lifetimes, have seen democracies fall apart under the pressure of economic crisis. When a choice must be made between civil liberties and democratic rights, on the one hand, and the promise of a decent standard of living and economic security on the other hand, there are always many who will choose the latter, although it may clearly entail the loss of the former. When stomachs are empty, the rights of free citizenship are regarded as small consolation. In every democracy, there are always demagogues who will come to the fore in periods of economic crisis to bargain the promise of economic security for the surrender of freedom. It was no accident that the successes of the Nazi Party at the polls when German elections were still free, showed a striking correlation to German unemployment figures.

Democracy the Best Antidote Against War

If economic well-being is a factor of paramount importance in the defense of democracy, then how does the defense of democracy relate to the preservation of peace? The evidence is within reach of anyone whose memory extends across the tragic years of our century. Democracies, by their nature, are not only less able to organize and launch aggressive war, but they are less likely to desire war. It is virtually impossible to prepare for aggression without exercising a degree of ruthlessness in the control of opinion and information which is utterly incompatible with the spirit of democracy. Even if it desired war, no government of a democratic state could force its people into a silent, united, and obedient phalanx without first subverting the people's rights. Simply from the point of view of the technical aspects of military preparations, democracy and aggression do not mix.

More important, however, is the fact that common people, by and large, abhor war. Wherever it is within the power of the common man to decide, we may be reasonably certain that he will choose peace. The common man never wins a war. When rulers think of aggression in terms of national power and prestige, the reward of the common man will probably be conscription, mud, and death. When the national prize is said to be markets and riches, the common man generally reaps ration cards, ersatz food, and inflation. So long as the organs of public information and opinion are free, and so long as the people control the government and not the government the people, we shall not be misled if we trust the people to choose peace.

In the words of Sir William Beveridge, "to make the world safe for democracy does increase the chances of its being a peaceful world, for the common man neither has nor thinks he has anything to gain by war."

Prosperity, then, is a bulwark of peace, both as a direct deterrent to war, and as an ally of democracy.

In the presence of this framework of ideas, let us turn now to questions of policy—to the question of what we should do and what we can do to stimulate prosperity here and abroad.

Our Stimulation of Prosperity Here and Abroad

Our problems are of two kinds. There are immediate problems, relating principally to the tasks of making good the material ravages of war. There are longer-run problems, involving the organization of the world economy to achieve the maximum output of goods and services and the elevation of living standards. The two are by no means independent of each other. If we should bungle the job of solving the economic problems of the transition from war to peace, we shall certainly delay, and we may even lose, the opportunity to organize the world economy for enduring prosperity. In the eyes of people who lack a roof over their heads today, the construction of a substantial dwelling for use in the future will have to wait.

The world is now in the cruel aftermath of a ghastly war. Each day brings fresh reports of suffering and misery over wide areas, new accounts of hunger, disease, and the still-spreading ravages of war. In Europe and Asia, many millions of people are right now on the verge of starvation. Throughout these continents, fuel and raw materials to run the factories and fertilizers to restore the land are dangerously scarce. Many countries are caught in a vicious circle: Without food, coal miners cannot dig coal; without coal, factories cannot produce agricultural machinery and fertilizers; without farm machinery and fertilizers, farmers cannot produce food.

If we were to ignore these problems, or to underestimate their importance, we should do so at our peril. Neither peace nor prosperity can be secure so long as great areas of the world are submerged in the economic morass of postwar disorganization. Assistance from the United States, and from all other countries in a position to help, is the main source of hope to the areas which have been devastated by war.

President Truman, in his Army Day speech last Saturday, set the keynote of our policy:

President Truman's Pledge for International Help

"The United States," he said, "is in a position to help; we are helping now, and we shall continue to help. We shall help because we know that we ourselves cannot enjoy prosperity in a world of economic stagnation. We shall help because economic distress, anywhere in the world, is a fertile breeding ground for political upheaval. And we shall help because we feel it is simple humanitarianism to lend a hand to our friends and allies who are convalescing from wounds inflicted by our common enemy."

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The Long-Term Problems

Let us turn now to the longer-run problems, to the problems of employing foreign economic policy to expand trade and promote prosperity. Prosperity abroad is dependent on the state of foreign trade to a much greater degree than many of us realize. For many countries, thriving foreign trade means prosperity and stagnant international trade means severe distress. Several countries normally derive more than a quarter of their total national income from their foreign trade. Some countries derive more than half of their income from foreign trade. The figures run all the way up to 67%, which is the figure for Norway. It is not an exaggeration to say that economic well-being and political stability abroad will depend largely, in the years to come, on the state of international trade.

The U. S. Must Take the Lead in Restoring International Economic Health

Our unparalleled economic strength and our position in world trade demand that the United States take the lead in an effort to put the trade of the world back on a healthy basis. Great Britain, leader of the greatest international trading area in the world, is prepared to assume full partnership with us in this high enterprise provided we can assist her throughout the next critical three or four-year period of reconversion from war to peace. To this end, we have negotiated a financial agreement with the United Kingdom. This agreement is now before the Congress for approval. We consider it the key to our entire foreign economic policy. If that policy is to have a fair chance of success it is essential that the Congress approve this agreement.

Instruments of Economic Nationalism Must Be Abandoned

If world trade is to become a highway of peace, we and other peace-loving nations must foreswear the use of the tactics of economic nationalism which turned the international economy into a jungle in the period between the two wars. We must not again permit trade to be strangled in a web of excessive tariffs, quotas, embargoes, preferences, subsidies, licenses, exchange controls, clearing agreements, barter deals, and discriminations of all kinds. The Hawley-Smoot Tariff of 1930, the highest in our history, was passed in sublime disregard of its effect on foreign countries. This tariff act caused serious injury to foreign economics, and brought numerous heavy reprisals and retaliations.

The trade practices which prevailed in the 1930's have been aptly described as "beggar-my-neighbor" policies. Each nation tried to improve its own position at the expense of its neighbors. The net effect of these practices was to depress living standards, to engender ill-will among nations, and to contribute to the political and economic instability of the decade.

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A National Labor Policy

(Continued from page 2072)

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Messrs. Green, Murray, Lewis, Reuther and Thomas, for example, have all criticized one another more severely than this, but they use language too strong for me to quote!

The Need for Legal Responsibility

The fundamental need today in a national labor policy is the imposition upon national labor organizations of a legal responsibility to exercise their powers through peaceful means, with due regard for the interests of the public. In formulating such a policy, there should be no backward step to re-establish the unrestrained power of employers to fix wages and working conditions without regard for the immediate interests of their employees and the ultimate interests of all the people.

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Permit me for a moment to pay my disrespects to those who rant and roar about an imaginary "absolute right" of workers to strike, and about the wickedness of any effort to compel workers by law to behave like good citizens.

First, I will quote from a unanimous opinion of the Supreme Court written by that notable friend of labor, Justice Brandies: "A strike may be illegal because of its purpose, however orderly the manner in which it is conducted. . . . Neither the comon law nor the Fourteenth Amendment confers the absolute right to strike."

Good Conduct Obligatory on All Citizens

Second, I will point out that the preservation of individual liberty and of an orderly society is possible only when Government lays down rules of good conduct for all citizens and compels all citizens to obey them. The wage earner has no superior virtue, nor any other valid claim, to be exempt from the obligations and compulsions of good behavior as defined and enforced by Government. In another famous opinion, Justice Brandeis denied that there was "any constitutional or moral sanction" to the claimed right of industrial combatants to fight out labor disputes regardless of public injury. Then he stated a fundamental principle in these words: "All rights are derived from the purposes of the society in which they exist; above all rights rises duty to the community."

That may sound like old-fashioned law to the Neo-Marxian lawyers and teachers who advocate industrial anarchy as the only democratic alterntive to the state socialism into which they are guiding us. But, even at the risk of being called old-fashioned, or of being denounced again by the vituperative triumverate of Green, Murray and Lewis, I contend that the Brandeis doctrine is good law, and should serve as a foundation stone for our national labor policy. To those who accept this doctrine it should be clear that above any right of a labor organization to advance the interests of its members there rises a public duty to refrain from using organized force and coercion to deny to others the personal liberty and economic freedom that are the birthright of all Americans.

The Emergence of Monopoly In Labor's Power

One of the most persistent enemies of economic freedom has always been a monopoly power. The development of such a power in labor organizations is comparatively recent. But in many ways, labor monopolies are more menacing to the general welfare than most of the earlier business monopolies.

Legitimate Union Objectives Should Be Legally Defined

Of course the anti-trust laws should not be applied to prevent workers from organizing to promote their interests by concerted action not injurious to others. But the license, originally granted to labor unions to pursue their legitimate objects by lawful methods, has been transformed into a privilege of using force and intimidation for the accomplishment of practically any objective of a labor union, regardless of how harmful to other private interests or to the public welfare. This makes it necessary now to define and limit by law the legitimate objects of a labor union and the lawful methods by which such objects can be attained.

Recently the Supreme Court pointed out that the monopoly established by the electrical workers' union in the sale of electrical equipment in New York City, if legalized, would "empower interested business groups to shift our society from a competitive to a monopolistic economy."

Nevertheless, the Court held, in substance, that, although a labor union could not conspire with a group of employers to accomplish such a result, a union could force an agreement from employers, one by one, which would produce exactly the same result. So the Court reached the following unhappy conclusion: "This, it is argued, brings about a wholly undesirable result—one which leaves labor unions free to engage in conduct which restrains trade. But the desirability of such an exemption of labor unions is a question for the determination of Congress."

It is frequently argued that there is no need for Federal labor legislation to prevent the misuse of labor power through economic coercion and physical force. Surely, however, no one will contend that the monopolistic powers of labor organizations, which arise out of a specific Federal exemption from Federal laws, can be corrected in any way except by a Federal law. Many persons may feel that the Federal exemption need not have been so liberally construed by the Supreme Court. But we can assume that the public opinion which is still opposed to what was once called "court-packing," will agree with the present opinion of the present Justices—that the way to change the law announced by the Court is through an amendment of statutory law and not through a change in the personnel of the Court!

The Need for Federal Labor Legislation

Now I shall turn to the flabby argument that lawlessness in

(Continued on page 2096)

THE TEXAS and PACIFIC RAILWAY COMPANY

— ANNUAL REPORT 1945 —

Highlights Compared With Three Previous Years

	1945	1944	1943	1942
Operating Revenues	$75,518,581	$80,002,746	$70,667,645	$51,764,233
Operating Expenses	$44,085,849	$45,921,334	$40,812,687	$29,633,298
Per Cent Operating Expenses to Revenues	58.38	57.40	57.75	57.25
Taxes	$18,414,668	$24,957,935	$19,712,172	$ 8,600,036
Fixed Charges	$ 3,578,128	$ 3,482,288	$ 3,652,467	$ 3,840,294
Net Income	$ 7,361,808	$ 3,821,791	$ 6,155,859	$ 9,003,541*
Times Fixed Charges Earned	3.06	2.10	2.69	3.34
Dividends (Preferred and Common)	$ 2,154,025	$ 1,572,700	$ 1,572,700	$ 1,572,700
Dividends per Common Share	$ 2.50	$ 1.00	$ 1.00	$ 1.00
Taxes per Common Share	$ 47.52	$ 64.40	$ 50.86	$ 22.19
Revenue Net Ton Miles (Thousands)	4,486,549	4,728,294	3,901,107	3,272,242
Passengers Carried One Mile (Thousands)	992,335	1,131,514	1,064,564	554,162
Revenue per Net Ton Mile (Cents)	1.141	1.102	1.127	1.104
Revenue per Passenger Mile (Cents)	1.942	1.863	1.897	2.032
Wages	$26,732,766	$26,781,787	$22,085,914	$19,049,352
Average Number of Employes	10,305	10,497	9,851	8,729
Average Annual Wage per Employe	$ 2,594	$ 2,551	$ 2,242	$ 2,182

Condensed General Balance Sheet December 31st

ASSETS	1945	1944	Increase	Decrease
Investment in transportation property less recorded depreciation and amortization	$165,677,096.09	$166,750,668.96		$1,073,572.87
Sinking funds	616,951.70		$616,951.70	
Capital and other reserve funds	292,182.62	253,890.63	38,291.99	
Maintenance funds	6,240,000.00	5,833,000.00	407,000.00	
Miscellaneous physical property less recorded depreciation	2,479,468.70	2,539,771.41		60,302.71
Investments in affiliated companies	6,769,725.24	6,898,914.76		129,189.52
Other investments	431,810.24	449,964.06		18,153.82
Reserve for adjustment of investment in securities (Cr)	630,955.60	301,517.52		329,438.08
Current assets	42,365,845.57	48,063,985.19		5,698,139.62
Deferred assets	379,107.97	1,132,814.84		753,706.87
Unadjusted debits	2,187,422.13	1,536,749.43	650,672.70	
Total Assets	$226,808,654.66	$233,158,241.76		$6,349,587.10
LIABILITIES				
Capital stock—				
Common	$ 38,755,000.00	$ 38,755,000.00		
Preferred	23,703,000.00	23,703,000.00		
Funded debt unmatured	63,794,000.00	66,670,000.00		$2,876,000.00
Equipment obligations	1,485,000.00	1,659,000.00		174,000.00
Amounts payable to affiliated companies	38,347.07	48,847.86		10,500.79
Current liabilities	25,187,008.55	32,180,637.18		6,993,628.63
Deferred liabilities	619,095.54	21,852.74	$ 597,242.80	
Unadjusted credits	10,004,472.34	8,888,887.22	1,115,585.12	
Unearned surplus	122,007.13	85,624.38	36,382.75	
Earned surplus—Appropriated	30,129,984.45	29,800,824.30	329,160.15	
Earned surplus—Unappropriated	32,970,739.58	31,344,568.08	1,626,171.50	
Total Liabilities	$226,808,654.66	$233,158,241.76		$6,349,587.10

REDUCTION IN FUNDED DEBT

During the year the Company refinanced its General and Refunding Mortgage Bonds by the retirement of $40,956,000 of outstanding 5% bonds and issuance of $39,000,000 of 3⅞% bonds. This reduction of $1,956,000, coupled with purchases of $781,000 First Mortgage 5% bonds, of $121,000 General and Refunding 5% bonds prior to refinancing, and of $18,000 Second Mortgage 5% bonds, together with deposit with Mortgage Trustee of funds for the payment of principal and interest to maturity of the remaining $136,000 outstanding Second Mortgage 5% bonds (in consideration of which release of the Mortgage was executed) and the discharge of $174,000 of equipment obligations, brought the total reduction during 1945 to $3,186,000.

Since January 1, 1943, the Company has reduced funded debt outstanding in the hands of the public $12,183,000 or 15.8%, and annual interest charges $1,017,982 or 26.8%.

W. G. VOLLMER, President

Importance of Economic Relations to World Peace

(Continued from page 2072)

use of exchange controls to the disadvantage of certain foreign countries. It can include the denial by a colonial sovereign of equality of access to the trade or raw materials of its colonies. It may be overt or concealed; there are many ways of achieving discriminatory purposes in regulations or legislation which appear on their face to be of general applicability.

Even though the economic effect of a particular act of discrimination be slight, the act may have consequences entirely out of proportion to its real significance. Acts of economic discrimination often provoke reactions in terms of national pride and honor, especially when nationalistic feelings have previously been aroused by other causes.

A colonial sovereign which uses its political powers to deny to other nations the right of equal access to the trade and raw materials of dependent areas may do serious injury to the economy of its neighbors. The economic effects of imperialism may not be inherently incompatible with the interests of peace; but imperialism can be used to undermine the peace when the sovereign obstructs trade and economic relations generally between the dependent areas and other nations.

Universal Free Access to Raw Materials

In the sense in which the terms are customarily used, no nation is really a "have" nation, as opposed to a "have-not" nation, unless it obstructs access by other nations to its markets and raw materials. Likewise, no nation is really a "have-not" nation, no matter how barren its territory may be of important natural resources, unless it is denied the right of access, on a basis of equality, to the trade and raw materials of other areas which are more richly endowed. This access may be denied in several ways. If nations rich in essential raw materials raise their tariffs on imports unreasonably, the purchase of such raw materials becomes difficult for countries which must have them. It is not inevitable, or even natural, that nations richly endowed with raw materials should be rich, while nations poorly endowed with such resources should be poor. Nature often provides compensations for such differences. Such compensations may take the form of special skills of the so-called "have-not" peoples. When a so-called "have-not" nation enjoys equal rights on reasonable terms to economic intercourse with an area rich in natural resources, it has little further to gain in the way of economic advantages by forcing the area under its political control. If the principle of equality of access, on reasonable terms, to the trade and raw materials of the world were universally practiced, the appetite for expansion of sovereignty, so productive of international friction, would largely disappear.

The Political Dangers in Economic Oppression

This, we believe, is an important lesson for economic policy. Whether discrimination has its major impact on values as incalculable as national pride or as concrete as the standard of living, the nation discriminated against becomes a little more likely to regard itself as underprivileged and oppressed. When such views are popular, there are always leaders who will cry for military action to obtain justice, and there are always followers who will listen. It may be doubted if the denial of equality of treatment in international economic matters could in itself ever lead directly to war; but it can contribute to the creation of an international climate which is more congenial to war, and it can become one of a complex of factors which do lead directly to war.

Let us turn now to the second proposition. We have said that the adoption of wise and far-sighted economic policies is capable of stimulating world trade and prosperity, and that prosperity itself is a bulwark of peace. As soon as the proposition is stated, however, it becomes apparent on simple historical grounds that prosperity alone cannot assure permanent peace. Within the limits of modern history, wars have occurred in good times and peace has been preserved in bad times. But economic well-being, rising standards of living, expanding opportunities for work and trade, do tend to create a psychological atmosphere in which aggressive impulses are less likely to become dominant. One could hardly put it better than it was put by Cordell Hull in 1937:

> "Peoples that are employed and prosperous are not easily incited to either internal or international strife. But peoples living in want and misery come to hold life cheaply and stand ready to gamble upon the use of force."

People do not differ much from one country to another or from one age to another in the universal desire to better their condition. If they are able through the peaceful channels of production and trade to secure for themselves a gradual improvement of their mode of living, they are more likely than otherwise to devote themselves to the cultivation of the arts of peace. If, however, the economic environment is such that they are thwarted in their efforts to improve their lot, they may and often do seek outlets for their ambitions in conduct of a more violent sort. If they conclude that the obstacles to their improvement and advancement are internal, they may pursue their objectives in ways that lead to internal unrest or even to civil strife. If, however, they believe or are led to believe that their distress arises from unfriendly external acts, their passions may take them down the road to military adventure and war.

The third proposition, which we regard as the most important, is closely related to the second. We believe that wise economic policy can contribute to prosperity, that prosperity is the most congenial economic atmosphere for the growth and spread of democracy and the institutions of freedom, and that the peace is safest in the hands of free men.

Democracy is in many ways a fragile form of political organization. This is especially true of young democracies, where the institutions of freedom are not imbedded in a solid foundation of habit and tradition.

For a democracy to function effectively, there must be an atmosphere of mutual restraint, a disposition to compromise differences, and a willingness to tolerate opposing views. In times of economic crisis, internal cleavages are widened, political conflicts arouse deep emotions and bitterness, and the inclination to compromise in order to preserve free government is weakened.

Democracy Is Dependent on Prosperity

That prosperity can contribute to the strengthening of the democratic order is much more than a vague hypothesis. All of us, within our own lifetimes, have seen democracies fall apart under the pressure of economic crisis. When a choice must be made between civil liberties and democratic rights, on the one hand, and the promise of a decent standard of living and economic security on the other hand, there are always many who will choose the latter, although it may clearly entail the loss of the former. When stomachs are empty, the rights of free citizenship are regarded as small consolation. In every democracy, there are always demagogues who will come to the fore in periods of economic crisis to bargain the promise of economic security for the surrender of freedom. It was no accident that the successes of the Nazi Party at the polls when German elections were still free, showed a striking correlation to German unemployment figures.

Democracy the Best Antidote Against War

If economic well-being is a factor of paramount importance in the defense of democracy, then how does the defense of democracy relate to the preservation of peace? The evidence is within reach of anyone whose memory extends across the tragic years of our century. Democracies, by their nature, are not only less able to organize and launch aggressive war, but they are less likely to desire war. It is virtually impossible to prepare for aggression without exercising a degree of ruthlessness in the control of opinion and information which is utterly incompatible with the spirit of democracy. Even if it desired war, no government of a democratic state could force its people into a silent, united, and obedient phalanx without first subverting the people's rights. Simply from the point of view of the technical aspects of military preparations, democracy and aggression do not mix.

More important, however, is the fact that common people, by and large, abhor war. Wherever it is within the power of the common man to decide, we may be reasonably certain that he will choose peace. The common man never wins a war. When rulers think of aggression in terms of national power and prestige, the reward of the common man will probably be conscription, mud, and death. When the national prize is said to be markets and riches, the common man generally reaps ration cards, ersatz food, and inflation. So long as the organs of public information and opinion are free, and so long as the people control the government and not the government the people, we shall not be misled if we trust the people to choose peace.

In the words of Sir William Beveridge, "to make the world safe for democracy does increase the chances of its being a peaceful world, for the common man neither has nor thinks he has anything to gain by war."

Prosperity, then, is a bulwark of peace, both as a direct deterrent to war, and as an ally of democracy.

In the presence of this framework of ideas, let us turn now to questions of policy—to the question of what we should do and what we can do to stimulate prosperity here and abroad.

Our Stimulation of Prosperity Here and Abroad

Our problems are of two kinds. There are immediate problems, relating principally to the tasks of making good the material ravages of war. There are longer-run problems, involving the organization of the world economy to achieve the maximum output of goods and services and the elevation of living standards. The two are by no means independent of each other. If we should bungle the job of solving the economic problems of the transition from war to peace, we shall certainly delay, and we may even lose, the opportunity to organize the world economy for enduring prosperity. In the eyes of people who lack a roof over their heads today, the construction of a substantial dwelling for use in the future will have to wait.

The world is now in the cruel aftermath of a ghastly war. Each day brings fresh reports of suffering and misery over wide areas, new accounts of hunger, disease, and the still-spreading ravages of war. In Europe and Asia, many millions of people are right now on the verge of starvation. Throughout these continents, fuel and raw materials to run the factories and fertilizers to restore the land are dangerously scarce. Many countries are caught in a vicious circle: Without food, coal miners cannot dig coal; without coal, factories cannot produce agricultural machinery and fertilizers; without farm machinery and fertilizers, farmers cannot produce food.

If we were to ignore these problems, or to underestimate their importance, we should do so at our peril. Neither peace nor prosperity can be secure so long as great areas of the world are submerged in the economic morass of postwar disorganization. Assistance from the United States, and from all other countries in a position to help, is the main source of hope to the areas which have been devastated by war.

President Truman, in his Army Day speech last Saturday, set the keynote of our policy:

President Truman's Pledge for International Help

"The United States," he said, "is in a position to help; we are helping now, and we shall continue to help. We shall help because we know that we ourselves cannot enjoy prosperity in a world of economic stagnation. We shall help because economic distress anywhere in the world, is a fertile breeding ground for political upheaval. And we shall help because we feel it is simple humanitarianism to lend a hand to our friends and allies who are convalescing from wounds inflicted by our common enemy."

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Good Conduct Obligatory on All Citizens

Second, I will point out that the preservation of individual liberty and of an orderly society is possible only when Government lays down rules of good conduct for all citizens and compels all citizens to obey them. The wage earner has no superior virtue, nor any other valid claim, to be exempt from the obligations and compulsions of good behavior as defined and enforced by Government. In another famous opinion, Justice Brandeis denied that there was "any constitutional or moral sanction" to the claimed right of industrial combatants to fight out labor disputes regardless of public injury. Then he stated a fundamental principle in these words: "All rights are derived from the purposes of the society in which they exist; above all rights rises duty to the community."

That may sound like old-fashioned law to the Neo-Marxian lawyers and teachers who advocate industrial anarchy as the only democratic alterntive to the state socialism into which they are guiding us. But, even at the risk of being called old-fashioned, or of being denounced again by the vituperative triumverate of Green, Murray and Lewis, I contend that the Brandeis doctrine is good law, and should serve as a foundation stone for our national labor policy. To those who accept this doctrine it should be clear that above any right of a labor organization to advance the interests of its members there rises a public duty to refrain from using organized force and coercion to deny to others the personal liberty and economic freedom that are the birthright of all Americans.

The Emergence of Monopoly In Labor's Power

One of the most persistent enemies of economic freedom has always been a monopoly power. The development of such a power in labor organizations is comparatively recent. But in many ways, labor monopolies are more menacing to the general welfare than most of the earlier business monopolies.

Legitimate Union Objectives Should Be Legally Defined

Of course the anti-trust laws should not be applied to prevent workers from organizing to promote their interests by concerted action not injurious to others. But the license, originally granted to labor unions to pursue their legitimate objects by lawful methods, has been transformed into a privilege of using force and intimidation for the accomplishment of practically any objective of a labor union, regardless of how harmful to other private interests or to the public welfare. This makes it necessary now to define and limit by law the legitimate objects of a labor union and the lawful methods by which such objects can be attained.

Recently the Supreme Court pointed out that the monopoly established by the electrical workers' union in the sale of electrical equipment in New York City, if legalized, would "empower interested business groups to shift our society from a competitive to a monopolistic economy."

Nevertheless, the Court held, in substance, that, although a labor union could not conspire with a group of employers to accomplish such a result, a union could force an agreement from employers, one by one, which would produce exactly the same result. So the Court reached the following unhappy conclusion: "This, it is argued, brings about a wholly undesirable result—one which leaves labor unions free to engage in conduct which restrains trade. But the desirability of such an exemption of labor unions is a question for the determination of Congress."

It is frequently argued that there is no need for Federal labor legislation to prevent the misuse of labor power through economic coercion and physical force. Surely, however, no one will contend that the monopolistic powers of labor organizations, which arise out of a specific Federal exemption from Federal laws, can be corrected in any way except by a Federal law. Many persons may feel that the Federal exemption need not have been so liberally construed by the Supreme Court. But we can assume that the public opinion which is still opposed to what was once called "court-packing," will agree with the present opinion of the present Justices—that the way to change the law announced by the Court is through an amendment of statutory law and not through a change in the personnel of the Court!

The Need for Federal Labor Legislation

Now I shall turn to the flabby argument that lawlessness in

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A National Labor Policy

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strikes and the use of such violence and intimidation as accompanies mass picketing should be dealt with by local governments and not by Federal labor legislation. Here we have a situation where, by Federal law, labor organizations national in size and effect have been endowed with special privileges, exemptions and powers. These monstrosities organize and carry on strikes of national effect, and strikes in which, commonly, the intimidation and inevitable violence of organized mobs override the police powers of local government.

It is definitely the job of the Federal Government to cut down the powers and privileges which have been granted by Federal law and which have been abused under the protections of Federal law. It is definitely the duty of the Federal Government, which has undertaken to regulate an enormous field of interstate commerce for the benefit of organized labor, to complete the job by regulating organized labor for the benefit of interstate commerce.

It is all too plain, to anyone who has had a long practical experience in labor disputes and a professional knowledge of State and Federal law, that the permanent improvement of labor relations, the preservation of industrial peace, and the fulfillment of their public responsibilities by both employers and employees, wait upon a comprehensive revision of Federal labor law.

There is not time and this is not the place to discuss the details of such a Federal law. But, here is the condensed statement of a practical and workable National Labor Policy:

Objectives of a National Labor Policy

1. Outlaw industrial warfare by establishing a legal machinery for the peaceful settlement of all labor disputes of National concern.

2. Make it the legal duty of employers and employees to follow the legal program and to strive in good faith to adjust differences peacefully before taking any aggressive action against each other.

3. Protect the public against sudden or prolonged deprivation of the necessities of life, such as public utility services, because of an unsettled labor dispute. Require employers and employees, in such a case, to defer any aggressive action against each other until an emergency commission can make a quick investigation and report. Then, if this impartial judgment is not accepted, the Government should be authorized to take control temporarily as it would in war time. When the stoppage of supplies and services, essential to the health and safety of communities, is threatened, the Government has the same duty "to provide for the common defense" as when we are threatened by a foreign foe.

4. Protect the freedom of the wage earners to organize and bargain through self-chosen representatives and voluntary associations democratically organized and controlled. Also, protect the right to work by making it unlawful for any union to exercise exclusive bargaining power, or to maintain a closed shop unless membership in the union is open on equal terms to all wage earners affected, and the membership controls the union.

5. Define by law the legitimate objects of a labor union and the lawful methods of advancing those objects. Then make illegal any strike or other union activity which is carried on by violence intimidation, or other unlawful means, or to accomplish an unlawful object.

6. Prohibit conspiracies in restraint of trade or competition, and monopolies of employment, whether promoted by labor unions or business men, either separately or jointly.

7. Define by law the separate functions of management organization and labor organization, in the prevailing forms of private enterprise; and then make it unlawful for members or representatives of one kind of organization to participate in, or otherwise to attempt to control, the functioning of the other kind of organization.

There are a host of major and minor problems that would be solved by the adoption of the national labor policy which I have tried to express in tabloid form. Every item of that policy has been the subject of Federal or State legislation, administration, or judicial consideration, to such an extent that there is nothing which is essentially novel, untried or theoretical in any single proposition. What would be novel would be to enact one comprehensive Federal law which utilized all the information and experience which are available and was designed to protect the economic interests and the freedom of all elements of our society.

We Now Have a Hodge Podge of Uncoordinated Laws

In place of that sort of law we have today a hodge podge of uncoordinated, inconsistent laws, which, instead of establishing a rule of reason in economic conflicts, establish a rule of force. And they grant special privileges to organized labor to use such brutal and destructive force, with such complete irresponsibility, that vast injuries to countless persons and to the general welfare have been inevitable — and must soon become intolerable.

The Legal Remedy

The remedy for this evil situation is simply for the Government to enact laws based on those elementary principles of preserving peace and good order that have been universally utilized in the lawmaking of every land and time from the Code of Hammurabi down to the Charter of the United Nations. Laws of good conduct are not always well administered or enforced; but it is the duty, indeed the necessity, of any government to enact them and to try to enforce them. Otherwise a government will die, like a human being, from neglected internal disorders.

The Railway Labor Act has preserved peace on the railroads for 20 years, not because of exceptional conditions in that industry, but because it embodies the indispensable requirements of any law to preserve domestic peace.

The proposed Federal Industrial Relations Act, introduced by Senators Hatch, Burton and Ball, June 20, 1945, is based on the same principles and methods. No amount of honest criticism or abusive misrepresentation can obscure the fundamental soundness of that proposed Act or the need for such a law.

After the last labor obstructionist has made his final plea for the perpetuation of special privilege and lawless force, such a labor law must be written before we shall attain industrial peace.

After the last confused social-scientist has protested against trying to compel men to be good, such a labor law must be written in order to compel labor bullies to live under the same laws that prohibit other brutal-minded persons from extorting money by violence and intimidation.

Of course criminal laws don't stop crime. But they do limit the amount of crime, and prevent highway robbery from being a respectable profession—even when practiced by judicially protected teamsters.

A labor peace law will not prevent every hard employer from ever bulldozing his employees; nor will it prevent every tough labor boss from ever swinging a club. But, it will make certain that in the long run the troublemakers will not profit by fomenting industrial warfare, by depriving the wage earners of the full rewards of peaceful cooperation, and by despoiling the enterprises which support them.

Forgive me if I am too simple and blunt in my analysis of what is commonly regarded as a complicated problem which should be handled as cautiously as an atomic bomb. But, it seems to me, to use the language of the late Justice Holmes: "At this time we need education in the obvious, more than investigation of the obscure."

That is my reason for avoiding many obscure issues as to how far government should go in the direction of socialistic controls and assistance, and how far it should preserve individualistic freedom and self-reliance. That is my reason for venturing to present to this enlightened audience such an obvious remedy for an obvious evil. That is my reason for calling attention to the neglected, but obvious duty of the Government to maintain domestic peace and good order, to preserve a free economy, and to protect the civil liberties of all the people.

Price Trends

(Continued from first page)

ber of unemployed lingers at the bare "normal" of less than 3 millions, as in 1929, against 9 millions in 1939, most of them in voluntary idleness, or a backwash of the strikes. In the face of substantially higher wages than in 1929, and rising ones at that, people on payrolls number (before the coal strike) some 52 millions, the highest peace-time figure in all American history.

There is no immediate post-war recession, as was generally expected, to say nothing of a depression. Nor are the symptoms consistent with the picture of any cyclical phase as drawn in the textbooks and used by forecasters. Never before, under modern conditions, have deficit-cutting, debt-reduction, and production-shrinkage coincided with peak, if not rising, civilian income and spending. The main reason is, of course, that the huge flood of money puts the economic dynamo out of gear and distorts the cyclical interrelation between its constituent elements.

Monetary Volume

Looking at it over a period of months rather than of weeks, the monetary volume is still on the increase, even though at a substantially reduced rate. In the first three months of the year, money in circulation declined slightly ($800 millions=2.8%); this backflow of cash to the banks, largely due to the return of soldiers and other "travelers," merely changes the form of money, not its quantity, and seems to have subsided already. At any rate, it is more than compensated by the continually mounting volume of bank deposits. Total (adjusted) deposits are rising still, or again, at a substantial rate: by $2 billions in January alone, plus 11.6 billions in the previous three months. In part, it is the "coming home" of currency that swells the checking and savings accounts. The reversal of the war-time outward movement of gold is another factor: after a loss of some $2 billions, with the "low" of $20.029 billions early last December, the gold stock is on the up-grade again at the monthly rate of $100 millions. But the chief source of deposit-creation is the unrelenting credit expansion: in the second half of 1945, the banks added $7½ billions to their investments, and $2½ billions to loans, the latter mostly also to finance the holding of Federal securities. In January, the total portfolio of weekly reporting member banks again has risen by $300 billions. Since then, it has declined by $2.8 billions, due to the partial redemption of the Federal debt, but no equivalent decline of deposits occurred.

Monetary Velocity

However, the center of inflationary gravity has begun to shift: the falling rate of growth in the size of the dollar-downpour is matched by a rising rate at which the accumulated "water" spills over the dam. In other words, the monetary velocity of circulation is gaining momentum; more and more of the vast amount of liquid savings—$225 billions at the end of December, not including either the cash surrender value of life policies or the Government bonds in the insurance companies' portfolios—are being used for purchases.

This acceleration in money disbursements has exactly the same effect as a rise in the monetary volume. Statistically, it expresses itself in higher figures of bank debits (to total deposits) compared to those of the same period a year earlier: 9.1% rise in 1945 and 9.3% more in January, 1946, are indicative of the direction. So, indirectly, is the fact that redemptions came within $50 millions of the sale of savings bonds (565 vs. 622 millions, respectively) in February, and outdid the latter by $75 millions in the first 25 days of March. These are some of the symptoms of the money-disgorging process that provide a new mechanism to sustain the buoyancy of the markets and the upward pressure on prices. The process still is in its infancy, but it has a natural tendency to accelerate itself in a self-inflaming fashion—even if the budget **should** be balanced for good, and bank credit expansion **should** be strictly restrained, two rather doubtful assumptions. Another important symptom is the decline of the rate at which fresh liquid savings accumulate; from a quarterly average of some 30% last year to a current 20% of the spendable national income. Other indications are the decline of corporate liquid holdings and its counterpart, the noticeable urge to hoard inventories, stimulated by the expectation of shortages and higher prices. The March issue of the Federal Reserve Bulletin expresses it conservatively by stating that the current "heavy buying" has been "to some extent of a protective nature. Business purchasers have sought to protect their sources of supply and also to protect themselves against further increases in prices."

Commodity prices are rising. The official indices, which showed an enviable stability throughout the reconversion period, measure the trend with the accuracy of a broken watch. But even they are beginning to reflect serious changes. As to the **short-run outlook**, the direction of which calls for scarcely any comment, there was a great deal of argument along the Potomac about forecasting the range of prices for 1946, Administration spokemen willing to admit a 10% rise, and Reserve Board and Congressional circles betting on 20 to 25% (from the present level). Very likely, both sides will be proven wrong; the increase might reach as high as 50%. That is about what the legalization of the prosperous black market would mean—not counting the 300% rise in Persian rugs—with the proviso that its prices are as a rule somewhat higher than warranted by the supply-demand situation, due to the premium involved to cover the risk of going to jail.

The most disturbing price development occurs in the sector of raw materials and semi-finished goods, with farm products and building materials (especially lumber) leading the procession. Some figures are spectacular: wheat and cotton have doubled against 1939, while the price of coffee trebled. In foodstuffs as well as in metals, the price increases have been concealed to some extent through subsidies paid to producers or processors, as industrial price rises have been mitigated by taking part of the burden out of intermediary profits. It may be temporarily obscured, but the trend is a sweeping one both horizontally and vertically: covering all commodities and all countries, thus reflecting the devastations of the war, the reduced production in many areas, the physical and psychological inhibitions to work, and the vastly enhanced demand, all affected deeply by the world-wide inflation as well as by political demoralization.

International Trend

To guage the longer run price level prospects, beyond the current year, the international trend may be considered first. Some of its constituent factors may not be operative for long; in Europe, last year's drought need not repeat itself, and the transportation jam should be gradually eliminated. Progressive return to peace, including some measure of fuller demobilization, plus the provision of more machinery, fertilizer, etc., should help to raise output. As a matter of fact, its volume already is at least 60% of the pre-war in France, and even closer to normal in England and Belgium. But the ending of near-famine situations (also in India and the Far East), which is as yet by no means assured, will not mark the beginning of falling world market prices for agricultural products, to say nothing of manufactured goods.

For one thing, low reserves in a number of products (especially sugar) and the time needed to restore production on plantations, will take care of maintaining prices on high levels. Lumber is supposed to stay "scarce" for five to ten years because not enough manpower is available here or abroad to make up for the deficiencies and produce the additional volume required by a demand of fantastic volume. The outlook for non-ferrous metals, in which excess inventories existed as late as in 1944, is similar, if only for a shorter period ahead. As to the general run of farm products, the effects of the war and post-war upheavals will impede for some time the return to normal circumstances. The Russian obstacles in the way of political and economic peace in Europe, Communist trouble in China, unrest in the East Indies, etc., all add up to lower output on the farms and to the necessity of supplying vast shortage areas. Inflation, that is rampant in most countries, magnifies the trouble by uprooting the regular channels of exchange and demoralizing the producers. Moreover, even in countries under somewhat normalized conditions, the shortage of equipment, and especially of labor, militate against higher output.

Basic Bottlenecks

That brings us to the core of **the long-run price problem.** The closely integrated character of modern economy, national or super-national, has the consequence that a major shortage at any one point reverberates throughout the entire structure. It raises prices even in surplus areas, and of non-scarce commodities. The reasons should be obvious. One thing is a substitute for the other, if only in a remote fashion;

or the second enters directly and indirectly into the cost of producing the first. Above all, all things are produced by virtually the same resources; their concentration along one line depletes the available supply for others. The British proudly announce that they have reached the prewar size of exports (in money, not in volume) by attracting raw materials and manpower into the export industries, but the decline in the number of coal miners and the lagging reconstruction in apparel and capital goods for home consumption may more than offset the gain. The examples could be multiplied *ad libitum.*

In this country, durable goods constitute the biggest **visible bottleneck.** But even the semidurables are a problem child. With all hands working and all machines running, and disregarding the foreign demands, it would take 1½ years to satisfy the conservatively estimated pent-up demand for clothing—assuming that no outburst of inflationary buying occurs—and probably 10 years for housing. However, the latter has to contend also with the construction wants of a commercial and public nature, and one or the other will have to be "postponed." The bicycle trade expects a whole year's full production for the home market alone; the automotive industry figures on five years, etc. Practically all manufactured goods of any "size" will need years for replenishing the larders. Even machine tool deliveries are far behind schedules, in spite of the unheard-of capacity expansion during the war.

The cruxes of the situation are many, and they are all derived from the same fundamental conflict between supply and demand: (A) Consumers are bound to compete with one another, thus raising prices, cost of living, and therefore wages. (B) Producers raise wages and raw material prices by competing for those resources. (C) In the process of wage raising, frictions are unavoidable, with the consequence of interrupting production and intensifying the shortages. (D) Shortages here create excessive demand there: a family which cannot find a home, bids for a trailer, pressing in turn against the limited supply of resources for its production. (E) A single item that is missing, small as it may be, holds up production: scarcity of lumber for cabinets is one bottleneck of the radio industry, shortage of steel causes a famine of rollers and bearings that stops many other lines, etc. (F) Most important: there is not enough skilled labor available to go around in all occupations—remember the gold mines, service stations, etc., shut down during the war—and the resulting hiatus at one end weakens the production effort at the other. (G) The labor force is disgruntled, aroused by rising living costs, and its appetite whetted by the political power of the unions; in Europe, it is actually overworked and underpaid.

Artificial Bottlenecks

Vicious "natural" bottlenecks must arise from this combination of pent-up demand, excessive volume of purchasing power, reduced inventories, shortage of labor inherent in a full-employment economy, plus the human reactions accentuating them. They are greatly aggravated by the enormous foreign demand, effective and urgent, mentioned before. What has not been mentioned as yet is the additional effect of foreign shortages (which are bound to last for years): they reduce the exports to this country which might have relieved the pressure on our markets; and they are a powerful psychological factor, through the medium of international price trends, to stimulate higher prices at home.

Government policies complete the picture. Wage raising helps to overcome the resistance of the price structure against inflation. Subsidies of about $2 billions will be extended, with another $600 millions in store for housing, not counting the State and municipal disbursements, all of which will bolster the inflated demand. As to price regulations, an insoluble dilemma stares the Government in the face. To let the market take its course would unloosen an avalanche of upgradings and still higher wages; regimentation postpones the evil day, but brings the black-marketeer to the front and impedes production. The course of "moderate inflation," starting with 76 official price increases in the last 6 weeks, plus a large number of items taken off the OPA list, overlooks that each individual raise unbalances the price structure and makes more raises compulsory. The continued or only temporarily interrupted monetization of the debt, with no obstacles put in the way of an increasing monetary velocity, provides the inflationary stimulus that is responsible for the never ending labor trouble and the consequent lengthening or intensification of the prevailing bottlenecks.

How far will this process go? Inasmuch as the monetary base, popularly called the printing press, is not expanding wildly, prices cannot rise in an astronomical fashion. But rise they do, and they are bound to stay high, too, for years to come—unless a thoroughgoing deflation should put on the breaks, as was done after the previous war. However, with an accumulated cash volume ten times larger now, and in view of an immeasurably deeper gap in the economic equilibrium at home and abroad, extremely drastic steps (such as a sharp capital levy on the otherwise self-perpetuating liquid wealth, or a system of "freezing") would be needed to bring the monetary velocity under effective control.

As a matter of fact, prices have just about doubled as against the depression low of the '30s, but all signs seem to indicate that this has been only the prelude for bigger things ahead. With neither an early solution for the "natural" bottlenecks nor a fundamental reversal of U. S. policies in reasonable prospect, and with the socialistic spirit in saddle almost everywhere, the inflationary forces have scarcely begun to operate. The money-hoarding propensity of the Roosevelt era is gradually giving way to the opposite attitude: disbursing savings and hoarding goods. Cheap Money has penetrated the economic system to the point where future values tend to be capitalized on the basis of a near-zero interest rate. So far, scarcely one-fifth of the employed manpower of this country has received pay raises; the intolerable distortion of the wage structure (in favor of politically powerful groups) calls for correction, and there is little doubt as to the direction. The full impact of shortages in capital goods will become visible when the consumers' hope for early satisfaction will be definitely disappointed—to point out only a few outstanding reasons for the expectation that a much higher price level than the present one is apparently in store, for a period of years at that.

Wages and Prices

(Continued from page 2070)

wage policy." Wages are low or high because of the marginal productivity of the worker.

The Employer a Middleman

To put the matter in another way, the employer is a sort of middleman or broker between worker and consumer. What he can pay for labor is determined by what the consumer is willing to pay for the final product into which the labor enters. And wages cannot be excessively boosted, or profits excessively curbed, either by governmental or union action, without discouraging either the ultimate consumer or the employing middleman and thus endangering employment.

It is not difficult to reconcile this view with a theory that postulates a close relationship in the long run between prices and costs of production. It is not true that costs of production directly determine prices. What a commodity has cost to produce does not determine its market value, but what it *will* cost to produce may determine whether or not it will be made, or how much of it will be made. Thus present demand affects future supply; and thus there is a constant tendency for price and marginal cost of production to equal each other, though not because one directly determines the other.

With this very brief theoretical outline out of the way, we are prepared to discuss some of the practical problems that arise in the relationship of wages and prices at the present moment.

The Practical Aspects of the Wage-Price Relationship

We are now in an inflationary period. Pressure for higher prices is caused in part by continued wartime shortages of consumer goods and by accumulated consumer demands. More importantly, it is caused by a huge increase in the monetary medium and by policies that tend to bring about a still further increase. The volume of money and bank deposits has more than tripled since 1939. A policy of artificially low interest rates, combined with a continuing budget deficit, keeps increasing the volume of credit. Yet we are trying to "combat inflation," not primarily by dealing with these causes, but by putting legal ceilings on wages and prices—or at least by putting ceilings on prices.

The Executive Orders under which we now operate are in many respects conflicting and ambiguous; but in spite of apparent contradictions, it would not be unfair to describe our present economic policy as one of trying to hold the price line while allowing wages to remain practically free from controls. The Federal Government has even encouraged, if it has not virtually ordered, a general wage increase in the neighborhood of 18½ cents an hour.

Present Price-Wage Policy Leading to Underproduction and Unemployment

Now can we really expect to "hold the line" on prices while permitting wages to go wherever competition or collective bargaining sends them? Obviously, the result of such a policy, if persisted in, must be to wipe out altogether the profits of marginal firms, or the profits on particular items, so that those items will go out of production and those firms will go out if business. The result, in short, if the policy is carried far enough, must be both to reduce production and to create unemployment. This result may be delayed or disguised for a while in an inflationary period like the present one. Greater demand tends to bring greater volume of production; greater volume of production usually tends to reduce unit costs, and it may allow net profits to remain high even with unchanged or higher unit costs. But if the policy of boosting wages and holding prices is carried sufficently far, it must eventually disorganize production and lead to unemployment.

This brings us to a wider problem. Granting that we cannot boost wages and hold the price line, is it not at least possible under present conditions, it may be asked, to hold the line on both wages and prices by direct Government ceilings? Or, to put the question in another way, is it not at least possible to control directly both wages and prices, assuming that we act without discrimination or favoritism, and, if we permit a rise, permit both wages and prices to rise by approximately the same percentage?

It will be found on examination, however, that this is posing the problem as if it were primarily concerned with the interrelationship of prices considered as a unit with wages considered as a unit. But this is a false way of looking at the problem we have to deal with. We really have to consider the relationship of each price to each wage rate. Further, we have to consider the interrelationship of thousands of prices with each other, and the interrelationship of thousands of wage rates with each other. For each of these relationships affects production. Each one of these relationships affects the relations between supply and demand for particular products. And if we take as our base the prices or wages of some past period—of January, 1941, for example—we take over at the same time the complex interrelationships of thousands of individual prices and wages which were determined by the particular supply and demand conditions of that particular month and year. But those supply and demand conditions no longer exist. It follows that any effort to preserve or petrify the interrelationships based on them must distort and disrupt the 1946 structure of production.

The Stimulation of Shortages

Price control itself inevitably does this. Price ceilings that are held below the level to which the forces of a free market would bring them tend to encourage consumption and to discourage production, thus bringing about shortages. If I were to elaborate upon this point, I should get into the general question of price control, which is beyond our present subject. I am bound to mention the general nature of the consequences of price control, however, in order to emphasize the enormously more complicated problems raised when we consider the interrelationships of wages and prices as well as of wages to each other and of prices to each other.

This brings us to another problem that has been much discussed of late. From the Office of War Mobilization and Reconversion there leaked out a few months ago figures, never officially sanctioned, purporting to show with some qualifications that industry could "afford" to raise wages by 24%. At the same time the Department of Commerce put out a report, later retracted, which declared that "present cost-price relationships are such throughout industry that a basic wage increase is possible without raising prices"; and that the automobile industry in particular could grant a 15% increase "without adverse results in the first post-war year . . . and a further increase of 10% . . . for 1947."

Trustworthiness of Official Statistics Doubted

Now it is not my intention here to analyze the figures which purportedly led to these conclusions. I should like rather to raise the broader question whether trustworthy calculations of this sort are possible at all—especially with the very limited data that even Government bureaus are likely to have. I do not think, in fact, that over-all estimates of this type can be either trustworthy or useful. Prices and wages, in the first place, are always specific; they do not consist of "levels" or averages. Over-all averages can, of course, be approximately calculated or abstracted from them. But it is quite invalid to use such averages, in turn, to try to calculate what a specific wage or price should be. The problem of the level of a particular wage or a particular price, or of its relationship to thousands of other wages and prices which it affects and which affect it, is always a specific problem. It cannot be answered in terms of the general price "levels" or wage "levels"; it cannot be answered in terms of averages. These mass over-all calculations completely ignore the problems of specific industries and specific firms. The folly of the Government's encouraging, recommending or ordering an increase of 18½ cents an hour in each wage, regardless of the particular existing wage to which that increase is added—particularly at the same time as the Government pretends to be "holding the line" on prices, or allowing "only a bulge, and not a breakthrough"—ought to be too obvious to require serious analysis.

This attempt to treat wages and prices in terms of over-all averages has led to some queer conclusions. A few months ago the Secretary of Commerce was reported to favor a 15 to 20% increase, provided prices were not increased more than 3%. This calculation seemed to be based on some notion that wages constitute only one-fifth or one-sixth of costs of production or of sales prices, and that a 15% increase in wages would require only a 3% increase in prices for everything to come out even again. If that were so, our problems would be enormously simplified; for if such a fixed relationship existed, we could increase wages, say, 150% and prices only 30%; or wages 1,500% and prices only 300%, and labor would always come out better off both relatively and absolutely.

It is clear, unfortunately, as soon as we make the figures large enough, that the proposition reduces itself to a mathematical absurdity. For the last fifteen years or so, "labor" has consumed, it has been estimated, about 75% of the national product. But if labor is now consuming 75 out of every 100 units of production, then with a 150% increase in wages to a 30% increase in prices it could consume 187 out of every 130 units—which, as Euclid would say, is impossible.

The fallacy which gives rise to this belief that a wage increase could be safely imposed on the economy substantially greater than the accompanying price increase is that of looking only at the direct wage costs of a specific trade. In the automobile industry, for example, the direct wage costs at the assembly plant may be less than a third of the total costs; and this may lead to the conclusion that a wage increase of 30% would require to offset it a price increase of, say, only 10%. But the falsity of this is apparent as soon as it is recognized that the other costs of production of the automobile industry—the costs of raw materials, of rent, of transportation, of selling—"break down" in turn largely into wages paid by **other** industries. And a general wage increase would raise these indirect labor costs in each industry as well as its direct labor costs.

If the labor income of the country represents approximately 70 to 75% of the total income of the country, as has frequently been estimated, then an increase of 30% in wages, it might more reasonably be deduced, should ultimately reflect itself in an increase of 20 to 22% in prices. While the over-all mathematics of this is better, I do not think that even this sort of calculation is very useful. Like the other over-all kind of calculation we have been discussing, it ignores the specific realities of the situation. One might make the abstract objection, for one thing, that if the relative purchasing power of profits were cut down in this way marginal producers would desert the ranks of employers and entrepreneurs and would join the ranks of employed labor. But the real objection to this method of measuring wage-price relationships is of another nature.

Over-All Calculation Fallacious

If we discuss the problem more realistically, this type of over-all calculation is seen to be extremely dubious. If in an otherwise free market the wage of some powerful union group is forced above the equilibrium level the main result may not be a corresponding rise of prices of the product which that union makes. The main result may be unemployment. Even if a price rise is the immediate result, the price advance restricts the market for the product, restricts the volume of sales, reduces production and therefore reduces employment.

At the moment we have a very unusual economic situation. We have a volume of money and credit that would doubtless sustain higher wages and prices than at present exist. These levels are kept down to a certain extent by governmental controls, although—when we consider quality deterioration, black markets, and reduced production—not quite to the extent that Government statisticians calculate. But even under existing conditions, it should be clear that inflation is not caused, as is so often supposed, by an upward "wage-price spiral." The causation, in fact, is the other way round. It is the monetary inflation and a shortage of goods that make the wage-price spiral possible. We could not, for example, have had an upward wage-price spiral in 1932. If we had tried it we should only have increased unemployment. It is precisely because we did try artificially to bring about an upward wage-price spiral in 1933 and 1934 through the NRA that we prolonged our unemployment and depression. At the present juncture, it is true, governmental encouragement of a wage increase would act **politically** as an inflationary factor, by bringing later pressure for a sufficient price rise or monetary inflation to make it work. But this does not mean that a wage-price spiral is the basic economic cause for inflation.

The Basis of Inflation Is Monetary

The basic cause for inflation is to be looked for on the monetary side. Government price and wage controls tend to prevent production from going into the channels where there is the greatest consumer demand. They reduce production, if not always in terms of tonnages, at least in terms of utility to consumers. If we are to combat inflation we cannot do so through wage and price ceilings but only by dealing with the fundamental monetary causes of inflation.

Summary and Conclusions

To sum up, the main proposals and theories now prevailing with regard to wages and prices are the product of political expediency rather than of scientific study. If we try to hold down prices while permitting wages to go wherever competition or collective bargaining sends them, we must eventually disorganize production and create unemployment. Even if we try to hold the line on both wages and prices by direct Government ceilings, we must still distort the structure of production and create shortages. It is a delusion to suppose that all wages can be raised by some given percentage without affecting prices, or affecting them only to some negligible extent. We cannot cure inflation by trying directly to prevent a wage-price spiral, but only by dealing with the causes of inflation, which are basically monetary. If we deal with those causes, then we can safely leave wages and prices to seek the levels to which the forces of a free market send them.

Finally, we can do most to clarify our economic ideas not by returning to medieval concepts of "just" prices or "just" wages, but by maintaining the modern concept of functional prices and functional wages. The best prices are not the highest prices, but the prices that stimulate the largest volume of production and lead to the largest volume of sales. The best wages are not the highest wages, but the wages that lead to full employment and the largest possible payrolls. The best profits are not the lowest profits, but the profits that encourage the most persons to become employers and to provide jobs. Prices, wages and profits must be thought of together. Only when we have achieved the best balance among them can the economy function at its fullest. If we try to force one of these elements out of relationship to the others, we must reduce production and hurt everyone—and sometimes most of all the very groups we are most eager to help.

Amend SEC Rule on War Cost Disclosures

The Securities and Exchange Commission announced on March 29 the adoption of an amendment to Regulation S-X designed to provide for special disclosure of war costs, losses, and expenses currently being recognized. The amendments adds a new sub-paragraph (d) to Caption 16 of Rule 5-03 of the Commission's Regulation S-X which governs the form and content of most financial statements required to be filed under the Securities Act of 1933 or the Securities Exchange Act of 1934. In its announcements the Commission says in part:

"Where war items are excluded from the income account and carried directly to surplus or reserve accounts, the new rule calls for the net aggregate amount so excluded to be set forth following the net income for the period. The nature, amount and treatment of excluded items is to be shown in an appropriate manner. If the excluded items were deductible for tax purposes, a brief explanation of their tax effect should be included. In addition the new sub-paragraph (d) requires appropriate disclosure of any substantial amounts of war items included in the income statement. If exact amounts cannot be given, the rule permits a company to explain the circumstances with an estimate of the amounts involved. Finally, a statement is required of the prıncinple followed in classifying particular items as attributable to conditions arising out of the war or its termination.

"The proposed amendments were drafted as a result of a staff survey of the practices being followed in the creation and utilization of so-called war reserves and of the character of items which were considered by various companies to be attributable to conditions arising out of the war or its termination. It appeared from the studies made that during the last five years or more many business corporations had set aside substantial amounts as reserves against anticipated, though usually indeterminate, costs and losses broadly characterized as attributable to operations during the war period. In most instances such reserves were set up by means of charges reflected in the annual income statements either before or after the determination of net income. In other instances reserves of an apparently similar character had been set up by charges against earned surplus. Finally, it appeared from collateral disclosures made in financial statements that some companies, although recognizing the possibility of such costs and losses, had set up no reserves but had instead regarded earned surplus as available to absorb any such charges."

Admiral Land to Address Civil Aviation Luncheon

Vice-Admiral Emory S. Land (U. S. N. retired), President of Air Transportation Association of America, will be guest of honor and speaker at the second annual International Civil Aviation luncheon to be held at the Hotel Roosevelt, on May 2, it was announced April 15 by John F. Budd, Chairman Aviation Section, New York Board of Trade, Inc. One of the country's leading aviation figures, though he did not qualify for pilot until he was 50 years of age, Admiral Land, while better known for his recent job as War Shipping Administrator and builder of the world's largest shipping fleet, continues to be one of the leading aviation enthusiasts.

The first International Civil Aviation luncheon was held Jan. 24, 1945, at which time L. Welch Pogue, then Chairman of the Civil Aeronautics Board, was presented with the Aviation Section's first Award of Merit, in recognition of distinguished services to Civil Aviation in the United States.

Twenty years ago, it was learned, Admiral Land became a Second Chief of the Naval Bureau of Aeronautics, the same year that the first scheduled airlines in the United States went into operations. In the ealy "20's" he won his rating as a Naval Aviation Observer. During 1928, he served as Vice-President of the Daniel Guggenheim Foundation for the Promotion of Aeronautics, and learned to fly while in office. Returning to the Navy in 1930, Admiral Land became Chief of the Bureau of Construction and Repair. He flew wherever his duties called. In 1937, at his retirement from the Navy, he became head of the Maritime Commission and pushed forward the enormous ship construction which contributed to winning the war. Constant use of the airplane during this period was his chief means of supervising the widely scattered ship construction going on throughout the country.

"Admiral Land's presence at the International Aviation luncheon will bring to life many new plans for the harmonious operation and integration of Civil Aviation and Maritime activity," Mr. Budd stated on April 15. His subject chiefly will be new phases of "International Civil Aviation."

Results of Treasury Bill Offering

The Secretary of the Treasury announced on April 15 that the tenders for $1,300,000,000 or thereabout of 91-day Treasury bills to be dated April 18 and to mature July 18, which were offered on April 12, were opened at the Federal Reserve Banks on April 15.

Total applied for, $1,989,724,000.

Total accepted, $1,310,259,000 (includes $47,202,000 entered on a fixed price basis of 99.905 and accepted in full).

Average price, 99.905+; equivalent rate of discount approximately 0.375% per annum.

Range of accepted competitive bids:

High, 99.907, equivalent rate of discount approximately 0.368% per annum.

Low, 99.905; equivalent rate of discount approximately 0.376% per annum.

(61% of the amount bid for at the low price was accepted.)

There was a maturity of a similar issue of bills on April 18 in the amount of $1,312,142,000.

Chapman Sworn in as Under-Secretary of Interior

Oscar L. Chapman, who for 13 years was Assistant Secretary of the Interior, became Under-Secretary on March 27 when he was sworn in by Associate Justice Wiley Rutledge. The Senate confirmed Mr. Chapman's appointment on March 22. As Assistant Secretary he was acting head of the Department after the resignation of Harold L. Ickes until J. A. Krug took over.

"Our Reporter on Governments"

By JOHN T. CHIPPENDALE, JR.

Money market experts are now of the opinion that the downward trend in interest rates has just about run its course. . . . This does not mean that rates will turn up. . . . What is expected is a leveling off or stabilization at or near present levels. . . . Short-term rates, it is believed, have quite definitely seen their lows, with stabilization looked for between the ranges of 0.82% and 0.88%. . . . Intermediate-term obligations will probably continue to adjust to the new conditions, with a settling expected just slightly under present yields. . . . It is indicated that non-bank holders will continue to move out of the intermediate-term bank eligible obligations. . . .

Whether there will be further minor price declines in these securities will depend upon the reserve position of the member banks. . . . Price changes from existing levels will not be substantial and as soon as the floating supply has been absorbed, it is believed that the middle-term maturities will stabilize near current yields. . . .

LONG RESTRICTEDS MAY ADVANCE

Long-term obligations, especially the restricted issues, seemingly are in the process of making their final adjustments, which will lead to stabilization at or close to present levels. . . . Long-term rates may decline a small amount from these levels say, from 2.18% to the lowest anticipated of 2.00%. . . . This could mean an increase in the price of the longest-term restricted issue from 105-15/32nds to about 108⅞. . . . The price appreciation would be fairly substantial from current levels, but it must be remembered that the price betterment from here on is the most risky that non-bank investors have yet tried to make. . . .

Market fluctuations, which will take place during the eventual stabilization of long-term interest rates (near present levels), make investing for appreciation, or more specifically, speculative buying of the restricted obligations more difficult. . . . There is no longer in the restricted obligation the assured profit that was there in the past. . . .

The stabilization or leveling off of long-term rates will not mean any increased cost to the Treasury of the debt burden. . . . It would result in decreased debt charges if long-term rates should settle at the lowest expected limits, namely, 2.00%. . . . A 2¼% or lower coupon long-term obligation would have a favorable effect on the debt burden. . . .

COMMERCIAL BANK HOLDINGS TO DECLINE

There is a definite change taking place in the money markets as the country moves into the conversion period. . . . For the first time since 1934, the commercial banks will no longer be buyers of Government securities on balance. . . . During 1946, the holdings of Government obligations by these institutions will decrease. . . . This will mean not only that the creation of deposits has been stopped but that there will be a decline in deposits. . . . The commercial banks which, until very recently, provided a great deal of capital to anyone who wanted it, are no longer doing it. . . .

This means that the capital markets will now rest much more on the savings of the people to absorb the obligations that will be offered. . . . The principal buyers of Government issues in the future will be the savings banks, insurance companies and other institutional investors. . . .

INDIVIDUAL BUYING ON WANE

It is not expected that individuals will be very important purchasers of Treasury obligations, now that the element of speculative gain seems to have been largely dissipated. . . . The fiscal position of the Government has improved and will continue to improve, which will mean continued and probably larger debt retirement, within limits that do not disturb the equilibrium of the money market. . . . New financing by the Treasury will be done only to reduce deposits and purchasing power, and this will not take place unless a way is found to prevent the sale of eligible issues. . . .

It is evident that the funds of non-bank investors will be more than ample to take care of any new money needs of the Treasury. . . .

Despite the elimination of deposit institutions from further Treasury financing there seems to be nothing in the money markets that forecasts anything but continued low money rates, despite the opinion that interest rates are moving toward levels of stabilization. . . .

FEDERAL SEEN TAKING HOLD

Debt management, under the influence of peacetime conditions, will mean changes in the methods of handling the money markets, with the Federal Reserve System once again one of the important factors in this situation. . . . Debt retirement is also another element of control in the money markets and by preventing war loan deposits from becoming individual deposits the Treasury in a somewhat roundabout way is cutting down the potential inflation. . . . Despite all that has taken place, and is likely to take place in the money market under the new developments, the one thing that seems quite definite is no increase in the debt burden. . . .

It will be interesting to see how the monetary authorities exercise their controls over the money markets to decrease deposits and cut down commercial bank holdings of Government bonds, now that the pressure of war financing has been lifted. . . .

ANOTHER BULL MARKET?

With long-term interest rates believed to be moving into a plateau, which will mean stabilization at or near these levels, the question is raised as to whether there will be another rush among non-bank investors to acquire the outstanding obligations at advancing prices. . . .

It is well known that certain non-institutional holders of the restricted 2½s and 2¼s offered in the Victory Drive, are very much interested in selling these bonds when the six months holding period is over, which will be after May 15. . . . The fact that the amount of appreciation in the Victory Loan bonds, from here on, seems to be limited by the rounding off of long-term interest rates, will probably bring more selling into the market than would be the case if Victory Loan bondholders felt that much higher prices would be likely in the future. . . .

Non-financial corporations during the Victory Drive bought $1,811,000,000 of the 2½s due Dec. 15, 1967/72, and $947,000,000 of 2¼s due Dec. 15, 1959/62. . . . Individuals purchased $2,813,000,000 of the 2½s due Dec. 15, 1967/72, and $836,000,000 of the 2¼s due Dec. 15, 1959/62. . . . How many of these securities have already been liquidated or will come into the market in the near future cannot be forecast. . . . Nevertheless the amount that could be sold is still quite substantial. . . . This is very evident when one considers that the holdings of individuals and non-financial corporations alone, in the 2½s due Dec. 15, 1967/72, were in excess of the total amounts outstanding for many Government bond issues. . . .

Selling of the other restricted bonds will no doubt take place if price changes in the most recently issued obligations should assume substantial proportions, after they become long-term holdings next month. . . .

Needed: Reconversion in Thought and Action

(Continued from first page)

shares — some of the genius of American craftsmanship, the brains of American management, the statesmanship of American government still seem strangely attuned to a bygone day—to the era that ended with V-J day. While we make plowshares, we still think swords.

The time is here for **all-out** reconversion—and it is just as important that we have a reconversion of American thinking as that we have a reconversion of American production. And, in that reconversion of our thinking, there is a clear call to duty for every one of us.

For the men of government—that we may no longer go down such bypaths as the abortive attempt to influence an election in the Argentine, or direct the internal affairs of Spain.

For the men of labor—that we again shall not have visionary attempts to link needed increases in the wages of the workingman with such meaningless phrases as "ability to pay" or "a look at the books" or "wage increases but no price increases."

For the men of management—that we shall not have blind adherence to the gods of things as they were, blocking the way to progress on the paths of things as they are to be.

National Debt Management

The most urgent problem confronting the nation today is that of the management of our national debt. Its great urgency is emphasized by the fact that the policies which we pursue will determine whether the dangerous inflationary potential which exists is to be controlled or whether it is to be released with disastrous effect. I contend that we need a reconversion of thinking with respect to this entire question.

There are several ways of looking at the strange phenomenon of inflationary tendencies and almost daily new high prices for long-term corporate and government bonds. The first is to adopt the borrower's attitude and be eminently well satisfied at the ability to obtain funds at the lowest rates in economic history. The second is to view with alarm the temptation to abuse the ease with which funds may be obtained. The third is to take the creditor's position and contemplate the loss in income which the shrinking of interest rates involves. The institutionalizing of credit and savings often means that there are no offsets to the decline in income, as legal restrictions confine the possible investment outlets of such institutions to fixed income securities.

There is, finally, a fourth approach which is the broadest and which seeks to examine the debits and credits objectively and arrive at a conclusion on balance. The economic and social implications have to be considered, as well as the pure dollars and cents aspects.

The easy money policy began when there was large unemployment and unused productive resources. It was contended that lower interest rates would stimulate borrowings and, therefore, increase employment and harden commodity prices. The theory was that easy money would benefit, especially, the capital goods industries and construction, where the interest factor is important in long-term projects. The theory was developed in the early thirties in a period of languishing trade and at a time when long-term governments were on almost a 3.5% basis. The basic assumptions appeared to be reasonable. The success of the policy, nevertheless, is still open to some question. At any rate, the recovery in construction and the volume of financing representing new capital in the late thirties were disappointing.

The second period of easy money policy began with our entrance into the war. In December, 1941, it should be recalled, long-term taxable governments yielded 2.47% and high-grade corporates 2.68%. The authorities immediately determined that the vast war expenditures and government borrowings should not entail higher costs of financing. In this policy they have been successful. But the war and post-war economy have created inflationary pressures which are of even greater concern than the cost of funds to either government or private industry.

Bank Holdings of Government Debt

To pay for the war and its aftermath, we have followed a policy of monetizing the public debt through the purchase of government securities by the banks. Between the end of 1939 and 1945 the Federal Reserve banks bought about $22,000,000,000 of government obligations and the commercial banks increased their holdings by approximately $74,000,000,000. Efforts to combat inflation by price restrictions and kindred measures simply ignore the need of getting these holdings out of the banking system and into the hands of the holders of the liquid assets which increased from $53,000,000,000 in 1939 to $135,000,000,000 at the end of 1945. For our purposes, I have excluded from liquid assets United States government securities. The liquid assets that are included consist of currency and demand and time deposits. Personal holdings of liquid assets, so defined, at the end of 1945, were $90,000,000,000. Everybody agrees that these huge sums represent the most dangerous threat to monetary stability.

To move a substantial part of the banks' government securities into the hands of the holders of liquid assets would be the most important single weapon against inflationary tendencies. However, the negligible returns on short-term securities and the very low returns even on long-term governments, which, the other day sold on a 2.11% basis, are uninviting. The appeals to patriotism are now without the benefit of the war fervor. It would probably take higher rates to induce a significant volume of liquid funds to be converted into government securities.

Here we run up against the avowed intention of the Treasury Department to keep interest rates down to their present levels, and the implication that even a lower rate structure would not be unwelcome. I am not unsympathetic to the viewpoint that low rates keep down taxes or to Secretary Vinson's observations that low interest rates may be helpful when business activity runs off. I urge, however, that if the inflationary pressures break out, the savings to taxpayers embodied in the low-rate policy will be nullified many times over.

It is my contention that to foster easy money at this time tends to undermine the other efforts of both government and business to maintain the integrity of the dollar. I would also point out that when we think of the possible value of easy money in arresting a decline in business, it is one thing to conclude that a reduction from a more than 4% level such as prevailed for high-grade public utility bonds in 1934 will be effective, and another thing to believe that a shaving of the present attenuated structure will be of benefit to our economy.

Committee on Public Debt Policy

The Committee on Public Debt Policy recently formed through a gift of the Falk Foundation, and of which Mr. W. Randolph Burgess is to be Chairman, promises a thorough and competent study. The Committee will explore, among other things, the implications of the debt to prices, to the purchasing power of money and savings, its effects on economic incentives; and the policy as to interest rates, floating debt and debt retirement will receive special attention. This is a most constructive step; but in our democracy I am of the opinion that the creation of an official Congressional committee along similar lines would have great influence.

One of the difficulties in arousing public interest in the problem of the consequences of lower and lower interest rates is that many are confused by an apparent diversity of interest. The insurance policy-holder may also be a business borrower. The bond-holder who finds his bond holdings subject to periodic calls may also be a stockholder of another corporation who has just read of the benefits to be derived from a refunding operation. The findings of a joint committee in which the Treasury, the Federal Reserve Board, bankers, businessmen and economists would have representation would have a greater chance of being translated into legislation and policy, in my judgment. Such a committee, too, could balance the various conflicts of interests and arrive at a considered conclusion without being charged with special pleading.

The Prohibition of Margin Trading

The need of a reconversion in our thinking is apparent on many other fronts. In the business to which I am closest, we have a situation which strikingly illustrates what I have in mind. Not so long ago the Federal Reserve Board decreed that the members of the New York Stock Exchange could extend no credit for the carrying of the securities on our list. When you analyze it, this is a very serious matter. The Federal Reserve Board has the authority under Federal law to prevent the excessive use of credit. Now, when the Federal Reserve Board declared, in effect, that the securities on the New York Stock Exchange, which include many of the choicest investments which exist today, were valueless for collateral loan purposes, it made no pretense that there was an excessive use of credit for the carrying of securities or even that any excessive use of credit was threatened. As a matter of fact, comparatively little credit was being employed for the carrying of securities.

Judging by the circumstances at the time and by what was indicated, we had to assume that the Board's purpose was to reduce the volume of trading in securities and possibly to restrain price movements. Aside from the fact that a power was being exercised contrary to the intent of Congress, here was the grossest discrimination against a form of property that is owned by millions of American citizens. The New York Stock Exchange would have approved the action of the Federal Reserve Board if it had, by any stretch of the imagination, been dictated by considerations of public interest.

My surmise is that the Federal Reserve Board when it took this action was thinking at least 15 years in the past. It was haunted by memories of 1929. It was willing to sacrifice some of the precious liquidity of our market and to deprive millions of people of their fundamental rights. Why? I, frankly, do not know why. In any event, it did make a record upon the basis of which it is in a position to say, in the event of a market setback, that it had done all that the law allowed it to do. This is a most discouraging situation where you have a public body, although well aware of the fact that its action was no more than an empty gesture, using its authority in an attempt to hobble our securities market.

There is, of course, the suspicion with respect to this action of the Federal Reserve Board and that is that it sought to create the impression that it was making a realistic attack on inflation. I must say, in all fairness, however, that the Chairman of the Board publicly indicated that he was under no illusions on that score. The effect of the Board's action, nevertheless, was to lead many people to believe that here was a courageous attempt to deal with the problem of inflation. And most unfortunately, it may, by distracting attention from the realities of the situation, delay the application of genuine remedies. As events demonstrated, the action had no visible consequence except to advertise the fact that the Federal Reserve Board recognized the advance of inflationary forces.

Now I am going to allude to another aspect of government regulation, which I think our people should be thinking about quite seriously. Too many well-meaning but uninformed people think of the New York Stock Exchange as existing merely for the amusement of a few hundred thousand people who have a desire to speculate. Too many regard it as a place where money may be used to accumulate quick profits.

Most Exchange Trading Done By Investors

Actually, by far the greater part of the trading on the New York Stock Exchange is done by people who are investors, who think in terms of dividends and long-term values. The speculators and in-and-out traders are merely the camp-followers. They do, it is true, perform a useful function in helping to create better markets—markets in which stocks may be more easily bought and sold at smaller variations in prices.

In late years there has been a big increase in the distribution of stocks among small investors, as the shareholders' list of almost any corporation will show. This is because of reduced opportunity for proprietorship investment in small business, better understanding of the nature of common stocks, more widely diffused and more dependable information about companies, vanishing returns from other sources and the necessity for dependent people who live on capital to obtain a higher return than is elsewhere available under present money market conditions. The stock market's genuine investor public has, therefore, grown very substantially.

With this growth in investor interest there comes to the regulatory authorities and to those in the securities business a new responsibility far more sacred than that involved in the type of excited speculative interest which made possible the ill-fated boom of the 1920s. We are now dealing primarily with investors.

Like so many things in everyday experience which at first seem complicated and difficult, the functions of the business I represent really are amazingly simple. The men and women who work in the investment and brokerage houses, in the agencies which disseminate investment information, and in the stock exchanges themselves are a part of a mechanism which serves highly useful economic and social purposes:

The first is to bring capital and management together that the two jointly may provide benefits for people—benefits which otherwise would not be available to society.

The second is to maintain liquid markets for the public's investments in the great enterprises of a complicated economy.

Are we doing all we should, as well as we should, to bring capital and management together that the two jointly may provide benefits for society? Are we doing a good job, and can we continue to do a good job, in maintaining a liquid market for the public's investments in goods-producing and service-providing enterprises?

Provide Better Security Markets

The answers, in my opinion, are not entirely satisfactory. We can do better. The government should allow us so to improve our mechanism as to provide better markets. Our markets at present are not nearly as liquid and serviceable as they look to the naked eye. They are geared mainly to the needs of an upward trend. They are ill-prepared for periods of liquidation which we frequently have.

Industry, if it is to provide as many jobs as the public has been led to think it can, must have billions of dollars of new capital, and the place to raise venture capital is in the securities markets.

Industry has not had time to raise all the money it requires, and the needs are very great in a period of rising prices when wages must go up, when inventories must be high, when construction costs are inflated, and when many businesses must extend more credit than they did in war-time.

Equally important is the need to raise venture capital for investment abroad. If the devastated areas are to be restored, if standards of living are to be raised all over the world instead of lowered here to match conditions abroad—and there inevitably in the long run must be a levelling one way or the other if this planet is to be blessed with peace—American capital must be invested in foreign countries.

As the British long ago learned, the proper way to finance foreign development is not through loans but through equity investments.

The financing of foreign investment is the task of our private capital markets. The task should not be performed by cumbersome, slow and inelastic government machinery.

Britain, the most successful of all foreign investors, always has employed the equity method. We will do well to profit from her example and show the world that the best way to obtain prosperity and plenty is the American way of free and aggressive enterprise for profits.

If investors are to provide the money, they must be attracted by opportunities for profit. Furthermore, there must be the machinery of modern securities markets in order that risks may be widely distributed and that huge amounts of capital may be raised quickly. Here is a completely new frontier for investment.

If anyone wants evidence of what has been done in the past, let him look at the official list of the London Stock Exchange. There are traded shares representing business enterprises all over the world—shares representing not hundreds but thousands of corporations with foreign properties.

We can do the same thing, but we can't do it successfully through the medium of loans. We, like the British, must have an actual proprietorship interest in foreign business enterprises, and we must share in management as well as in dividends. There is no other way to do this job, in our modern economy, except through the British pattern, and the only way to follow the British pattern is to employ the New York Stock Exchange as the British have employed the London Stock Exchange.

I would like to say something more about the function of the security markets: To maintain the liquidity of the public's investments in the great enterprises of a complicated economy.

The "Auction Market"

The objective of the "auction market," such as is maintained on the floor of the New York Stock Exchange, is to provide the investor with facilities through which he may turn his securities into cash on short notice, and at prices not too far away from the most recent sale; and his investable cash into securities.

People will not readily assume the entrepreneurial risks of proprietorship if they do not know that they can retire from a commitment on short notice. Liquidity, thus, is a major incentive in inducing people to invest.

Most economists agree that in the past too much investment in debt and too little investment in stocks has been bad for our economy. Too much debt, debt of all kinds, caused the great depression of the 1930s. Too much debt in the past has caused corporation after corporation to go into receivership. Anything that encourages investment in common stocks rather than investment in bonds, therefore, tends to be a stabilizing influence in the economy. In short, a liquid market for stocks contributes directly to the stability of the whole economy.

But the market in stocks, for psychological and confidence reasons, must not be a market in which prices fluctuate too rapidly in periods of investor pessimism. If buyers are not present to bid for stocks when they are offered in volume, quotations may melt away rapidly.

Securities Market Regulation

Say what you may about the broad economic justifications for the securities legislation enacted in 1933 and 1934, it really was inspired by just one thing—the violent decline in quoted values in the 1929-1932 period. What Congress really sought to do in the Securities Act and in the Securities Exchange Act was to prevent a recurrence of 1929 and its aftermath.

In the last analysis, too, the public will judge this legislation and its administration under the Securities and Exchange Commission by the results attained in preventing a recurrence of disorganized markets on the down side. The Government agencies, that is the SEC and the Federal Reserve Board, thus far have been interested primarily in preventing markets from becoming disorganized on the up side. Practically all of the regulation of the me-

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chanics of the market (note that I am talking now about **market mechanics** and not any of the other many phases of SEC regulation) have tended to remove supporting influences which formerly were present when liquidation appeared. The result has been to make the market more and more of a one-way street.

I would like to raise my voice now against thin markets and all regulations and restrictions which tend to reduce liquidity. The present situation, as I see it, may be likened to an automobile which has only one speed forward and no reverse gear.

Since 1934, many things have been done to purge the market of practices which formerly were regarded as recognized elements of the mechanism of stock market transactions. Some of these measures have contributed to a less liquid market on the New York Stock Exchange and in the other American securities markets. I would like to stress that, in each case, the objective has been laudable. I would not admit, however, that in all cases, the measures have been necessary or wise.

I would be the first one to say that the market might have been "wilder" and higher without these reforms. I certainly would not turn the clock backward and eliminate all of them.

Furthermore, I know that neither the investors of America, nor the regulatory agencies, nor the securities industry, nor the Congress, nor the public would approve of any national policy directed toward the abandonment of strict regulation. What I say tonight is said with a full appreciation of the fact that the institution which I represent is more concerned than any government agency or anyone else over the possibility of a recurrence of the experiences of that regrettable period in our economic life which we refer to as the late 1920s.

On the other hand, I am confident that everyone, especially the country's investors and the securities industry, are anxious that the New York Stock Exchange and the rest of the securities market mechanism be as efficient as possible in the years of great need and great usefulness which lie ahead.

To sum up, let me say that I am intensely interested in the development in this country of a state of mind which looks forward instead of backward. If we have to go through a season of dangerous inflation of the price structure in this country over the coming years, it will be because we have not faced up to our problems courageously; because we have continued to broaden the credit base through deficit financing by the Federal government and because we have not wisely met the problems that arise out of our huge national debt. A sound Federal tax and fiscal policy, with economies in government as the cornerstone, will safeguard the credit of the nation, preserve the integrity of our money and instill confidence among our people. That should be the broad objective of all of us as we look ahead to a great period of expansion and progress.

Arguments Against the Bulwinkle Bill

(Continued from page 2083)

2536 does not restrict the opportunity of common carriers and freight forwarders to the making and carrying out of agreements with respect to rates, tariffs, and rules and regulations relating thereto. In fact, except for mergers and acquisition of control, no limitation is placed upon the type of matter which carriers or forwarders could make the subject of private agreements with relief from the anti-trust laws.

Thus, common carriers or forwarders would be permitted to agree to reject a shipper's or carrier's proposal for lower rates or charges, without ever filing the matter with the commission. They could collectively agree to raise rates now at competitive levels to the levels found reasonable as maximum rates in the past, so long as the agreements made did not include carriers of different agencies. They could agree to uniform time schedules for delivery of freight or passengers. They could make private agreements not to improve freight or passenger services and facilities, or to retard the installation of such improvements. They could agree on levels of rate and service competition. All with broad relief from penalty under the anti-trust laws and without direct and close Government regulation.

At first glance, the prohibition upon approval of agreements between carriers of different modes of transport would seem effective to prevent restraints upon interagency competition, but reflection upon the interrelations between competition within one agency and between that and another agency and upon adroit methods of curtailing competition will throw doubt upon such a conclusion. Experience has shown that once railroads have agreed upon what rates to file, it will be easy for motor carriers, acting jointly among themselves, to agree upon the same basis of rates. To achieve that result, no agreement between railroads and motor carriers ordinarily is necessary if the motor carrier organizations have the power to hold their membership in line. Under the Motor Carrier Act, it required the commission's minimum rate power to obtain a uniform price policy among motor carriers. But motor carriers are now much more effectively organized. With relief from the anti-trust laws, the hand of the organized majority would be so strengthened that it would seldom be necessary to resort to the minimum rate power to coerce truckers to limit competitive reductions or place their rates on the rail basis.

Basic Defect of Bill

The basic defect of the Bulwinkle bill is that it grants broad immunity from the anti-trust laws to common carriers within each form of transportation and to freight forwarders, without establishing adequate safeguards against coercive and collusive practices by such carriers and forwarders that would impair competition in rates and services. No carrier or shipper group favoring passage of H. R. 2536 has condoned coercive practices. The proponents have ignored, however, the frequent exercise by rate bureaus of economic coercion in the form of threats of diversion of interline traffic unrouted by shippers, rate reductions on wholly unrelated traffic which is important to the carrier endeavoring to act independently, and cancellation of participation in joint tariffs and concurrences.

In view of the bill's lack of provisions establishing regulatory procedures for enforcing the right of independent action, it is important to note that provisions in the articles of organization and rules of procedures of rate bureaus to protect this right of individual carriers have not been self-enforcing in the past. The charters of rate bureaus and similar organizations have generally included provisions giving individual carriers the right to act independently with respect to rates and services. Yet, there have been numerous instances of coercive actions, or threats of such actions, against the carrier which will not accept the will of the majority or that of the dominant carriers in the rate bureau. It may be presumed that such practices will continue in the future unless effective surveillance of the acts of rate bureaus, associations, and committees is provided.

Of course, carriers denied exercise of the right of independent action by coercion might complain of this fact to the commission and seek termination of the approved agreement and restoration of the anti-trust laws. But if these carriers had been prevented from filing lower rates, the same forces of private coercion most likely would also restrain them from filing complaints with the commission. Even if they did complain, the commission might find termination of the entire agreement too drastic a penalty and thus be powerless to aid the injured carrier.

Moreover, in the railroad field particularly, the process of getting all carriers into line is accomplished more by persuasion than by coercion. Isolation and ostracism from the group is a penalty that many carriers and their representatives dislike to incur. Obviously, complaints would not be effective in cases involving this type of pressure. Thus, with the fear of anti-trust law prosecution removed and no close surveillance by the commission provided, it could reasonably be anticipated that the coercive and suasive practices of the past would multiply and that competition in rates would be further curtailed.

Cites Case of Citrus Fruit Rates

In this connection, I may cite an experience of the Department of Agriculture when under my leadership it endeavored to obtain lower rates to help move the bumper 1938-39 crop of citrus fruits by inducing greater consumption from lower prices. Even before I dispatched my letter of Oct. 29, 1938, to the freight associations in the citrus fruit producing areas, but after I had announced on the radio my intention to do so, the Vice-President of Traffic of the Association of American Railroads had written to the traffic officers of the originating carriers, and had sent copies of this letter to the four rate bureaus directly involved, asking them not to consider my request, if filed, separately by origin carrier groups. On Nov. 26 of that year, after ascertaining that the attitude of a competing water carrier would be similar, he advised me that the railroads could not quote lower rates to move the bumper crop. To my knowledge, this request by the Government agency responsible for the welfare of agriculture was not referred to the commission for examination of the reasonableness of lower rates. Since the individual railroads that might have been interested in quoting lower rates did not act independently, the only recourse open to the Department was to make a formal complaint to the commission. This course would have required undertaking the burden of proving existing rates to be unreasonable, a difficult task. The time requirements of formal procedure were such that this recourse was not of value. Had carriers or a carrier been free to act, the decrease sought might have been precipitated.

It is costly for shippers to make formal complaints and to accept the burden of proof that the rates complained of are unreasonably high. At the time the Department of Agriculture was seeking lower citrus rates, it was not equipped to undertake a complaint case. While the larger shippers do have traffic and legal staffs to organize and present a case before the commission, small shippers usually do not enjoy such facilities. To them, the right of filing a complaint concerning rates is a poor alternative to the advantages of active competition, not only between agencies but between carriers within each agency.

The Spur of Competition

That the spur of competition is necessary to stimulate efficient operations, improved services, and rates which more nearly reflect the costs of the most efficient carriers has been recognized by the shippers. Thus, the National Industrial Traffic League requested an amendment, which was inserted by the House Committee on Interstate and Foreign Commerce, to prohibit the commission from giving approval to agreements between carriers in different types of transportation, except with respect to joint rates and through routes which, of course, cannot be arranged without concurrences of the carriers directly involved in interline traffic.

The league also requested an amendment, not inserted by the House Committee, to give shippers the right to complain to the commission against any action taken under an approved agreement and authorizing the commission to determine whether that action is harmful and such as would require withdrawal of relief from the anti-trust laws. These requests show that what shippers really want to preserve is the conference method of negotiating rates, not the use of rate bureaus and such organizations as devices to eliminate competition in transportation.

Interest of Final Consumer Paramount

Moreover, the interest of the final consumer of transport services is paramount, but has been given almost no consideration in the issues involved in rate bureau practices. It seems to have been assumed that when disputes between shippers and carriers have been settled by resort to the commission, the problem is solved so far as the public interest is concerned. However, the emphasis placed by shippers upon the relationships among rates frequently leads them to protest rate reductions proposed by one or more carriers to assist other shippers develop a market. Hence, to the resistance of other carriers to rate reductions is added that of shippers seeking to protect existing rate advantages. As a result, parity relationships between differently located shippers is often established on a high level of rates. Although existing market relationships among differently situated shippers are protected, the consumer's interest in having the commodities supplied at lower rates and prices is ignored. Like the small shipper, consumers must still depend upon competition for lower freight rates.

Likewise, the consumer must look to competition to stimulate carriers to install improved equipment and to offer more attractive service. Only recently have the railroads offered through sleeping car service on transcontinental runs, although no technical obstacles existed previously that do not apply today. Competition in the form of appeals to the public by one forward-looking group of carriers acted as the immediate spur to this long-neglected convenience to transcontinental and other travelers. No doubt, in the background lay the rapid strides of the airlines in increasing the speed and comfort of long distance travel at fares comparable or lower than for rail service.

Public Not Protected From Rate Bureaus' Practices

Those who argue that regulation provides the public with complete protection from the restrictive practices of rate bureaus overlook the fact that regulatory power is incomplete as well as inherently incapable of providing the stimulus to better and cheaper services that competition can provide. Although the commission has strong powers to assure an equitable distribution of cars and to regulate service with respect to adequacy and safety, it does not have direct control of many other aspects of service of great interest to users.

Even with respect to rates, where the commission's powers are complete, regulation is an inadequate substitute for competition from a practical standpoint. In the absence of effective competition, the commission would have to depend upon the complaints of shippers and its own investigations to make sure that the thousands of freight rates under its jurisdiction were not at excessive levels. Commissioner Aitchison, in behalf of the commission, reported to the House committee that only about 40% of the tariffs filed have been specifically checked as to reasonableness in the past. Aside from the administrative difficulties that make reviewing of all rates impractical, other considerations exist that limit the effectiveness of such control.

In the first place, the standard of reasonableness in the Interstate Commerce Act has been demonstrated to involve a band or zone so broad between minimum and maximum rate possibilities as to be of little value to the small shipper, or to some large shippers, in the absence of competitive pressures. For example, in a typical case (156 I. C. C. 412), the commission prescribed 70 cents as the reasonable maximum rail rates on refined products from Los Angeles group points to Arizona points. Under the influence of for-hire and private truck competition, actual rates had fallen by 1936 to lows ranging from 18 to 56 cents depending upon the Arizona destination. These rates were supported by the railroads as fully compensatory, and were found by the ICC to be "reasonably compensatory" and not below reasonable minimum rates (218 I. C. C. 345). There are many cases where such a wide zone of reasonableness exists, and in all such instances the shipper must look to voluntary action of the carriers for the benefits of competition.

Difficulties in Standards of Rate Reasonableness

Dfificulties also arise from the standards used to test the reasonableness of rates. A principal test has been a comparison with rates already in effect. The difficulty of this test under existing conditions is that the rates usually selected as yardstick rates are themselves most likely to have been administered rates. That is to say, the rates in issue are likely to be tested against rates which have been agreed upon in previous actions of rate bureaus. Such rates, of course, may fall within the wide zone between maximum reasonable rates and minimum reasonable rates. However, there can be no assurance that the standard rates themselves reflected the free operation of competitive forces and the application of the rate comparison standard therefore tends to result in perpetuation of monopolistic rates.

The cost-of-service standard, which has been increasingly resorted to in recent years, is also defective. The art of finding the cost of transportation service is not highly developed and determinations are very controversial. Some important elements of cost cannot logically be divided or allocated to individual items of traffic, although most cost formulae nevertheless make arbitrary allocations. The result is that the costs used as standards are not necessarily economic costs—they tend to be padded and to reflect low ratios of utilization.

Moreover, the cost of services does not necessarily reflect efficient services when rates and services are agreed upon by majority action through rate conferences or bureaus. Although there are many individual carriers, such agreement makes it possible for them to operate as though a monopoly existed. In such a situation the competitive pressures that tend to reduce cost to a minimum are inoperative. Therefore, when the commission uses a cost standard, that standard, too, tends to perpetuate monopolistic costs and rates and to restrict services and utilization. The only solution to this problem is to free the forces of competition by making independent action by competing carriers meaningful rather than to render taking such action more difficult through granting rate bureaus broad relief from the anti-trust laws.

The impression has been created by the testimony of certain groups that everyone would gain from passage of the Bulwinkle bill, since carriers of various types, shippers, and Government regulatory agencies have supported the bill. It can be granted that legalization of well-established conference procedures for negotiating changes in rates and disseminating information among carriers and shippers with respect to such changes would be a beneficial step. However, it is one thing to take action to preserve such organized procedures for considering rate changes and joint rates and another thing to pass legislation permitting additional private restraints upon rate and service competition by granting relief from the anti-trust laws.

The Heart of the Controversy

It cannot be reiterated too often that the exemption requested from the anti-trust laws is wanted not merely to enable carriers and shippers to discuss rate changes and to disseminate technical information, but to authorize the making of specific agreements to restrict competition in rates and services. Here is the heart of the real controversy, and it is to the probable effects of greater private control of freight rates and transportation services that the Congress must look for guidance as to the wisdom of the proposed legislation.

The proposed legislation would extend the domination of the small carriers by the larger ones, particularly in the trucking field. To the difficulties that small carriers in that field already experience in operating profitably under their typically restrictive operating authorizations would be added impairment of their right to initiate lower rates to attract traffic and to reflect their superior efficiency in those many instances where a small-scale single-line operation develops the lowest costs. The opportunity of veterans and others entering trucking would thus be further restricted. If private enterprise in transport is to survive, it will be necessary to protect the right of newly established carriers to compete, not to destroy it.

It is apparent that while H. R. 2536 would give the carriers broad relief from the anti-trust laws, it contains no teeth for protection of the public interest against coercive practices and other restraints upon competition in rates and services. Moreover, its timing by at least one significant group of proponents was designed to interfere with cases now in the courts dealing with alleged infractions of the anti-trust laws by those particular proponents.

Congress Should Delay Action

In view of these facts, the Congress would be well advised to await the outcome of the court proceedings in the *Georgia* and *Nebraska* cases before making a decision on the controversial issues involved. This procedure would afford an authoritative finding on the extent to which existing associative activity by conferences, rate bureaus, and executive associations are legitimate under the anti-trust laws and the degree to which they constitute infractions of these laws. Some legislation may be essential expressly to legalize the clearly legitimate functions of rate bureaus and other similar organizations. Whatever legislation that objective may require, it should be recognized that relief from the anti-trust laws is not necessary to the preservation of the socially useful functions of the rate bureaus.

Nor is that step necessary to effective regulation by the regulatory bodies. When the Interstate Commerce Act as a whole is considered, there exists no basic conflict between anti-trust law policy and transport regulatory policy as provided in the statutes enacted by the Congress. To obtain the full measure of economy under our system of regulated private operation of transportation agencies, continued anti-trust law surveillance is necessary to maintain open competition in the area of initiation of rates and services where regulation is powerless to prevent carriers from adopting restrictive policies.

From the experience of the 1930's and during the recent war period, it is evident that the carriers, especially the railroads, cannot reasonably expect to earn normal profits unless large volumes of freight and passenger traffic are available from high-level operations throughout the economy. Looking backward, the high freight rates prevailing throughout the decade of the thirties did not bring financial prosperity to the railroads. Their primary effects were to divert traffic to other agencies, to restrict the total volume of transportation, and to retard improvements of facilities.

The high passenger fares, retained in Official Territory until 1936, when the commission ordered a reduction, also restricted the volume of service and contributed to low load factors in coaches and sleeping cars and high operating costs per unit of traffic. Although the lower passenger fares initiated voluntarily by the carriers in the Southern and Western districts may not have raised the net profits of those roads materially, they did stimulate a substantially higher volume of traffic.

Rate Levels Relatively Low

On the other hand, during the war the railroads, including those in receivership or trusteeship, became quite profitable without material increases in either freight rates or passenger fares and in spite of higher wages and materials costs. Because the general price level has advanced much more than rail rates, the present rate levels are in fact relatively low. The greatly improved income position of the railroads has primarily reflected the stimulus of the war situation to high traffic levels, rather than the level of rates. The significance of this experience is that it demonstrates the practicability of profitable operations with low freight rates.

A profitable future for the railroads and other carriers requires that the present high levels of traffic be sustained. During the immediate period ahead, while the economy is being pushed to the limits of its production capacity to furnish the goods and services necessary to make up for wartime consumption deficits and to restore industrial facilities abroad, traffic volumes may hold up even with some general increases in freight and passenger rates. However, as soon as this period is passed, the problem of the thirties, that of inducing a sufficiently high volume of traffic to assure profitable operations, will return to plague the carriers.

Such a volume of traffic can be induced only if high levels of income, production and employment are protected on all economic fronts. While no one industry can be held responsible for the total production and employment levels, all industries can contribute to them. The contributions of transportation agencies can be very considerable if services are improved and rates are kept to as low levels as are consistent with maintaining the service.

Another important problem to which freight rates relate is industrialization of underdeveloped regions of the United States. For new industries to develop in such areas or for expansion of existing industries to occur there, it is often essential for freight rate adjustments to be obtained. Previously, there may have been little or no traffic in the materials to be utilized at a given point or in the products to be made at that point. The existing rates are "paper" rates, often class rates, and obviously high. In such cases, it is of crucial importance to obtain lower freight rates, but such adjustments will not be forthcoming, or only after long delay, under existing rate bureau procedure.

To summarize, enactment of the Bulwinkle bill would be interpreted as giving the blessing of the Congress to restrictive rate and service policies in transportation. The safeguards of prohibiting agreements between carriers of different agencies and those not providing for independent action would not be effective under conditions that would exist with the anti-trust laws no longer applicable. Coercive practices against carriers desiring to reduce rates or improve service for competitive advantage would multiply. Rates would tend to rise and their stickiness under changing economic conditions would be increased. The potentialities for improved service to the public that exist would not be fully realized. As a result, the transportation industries would fail to make their full contribution to high levels of producion and employment.

Efficiency in distribution is a primary requisite for successfully coping with our economic problems in the period after the large deferred demands now producing inflationary pressures in various parts of the economy have been worked off by several years of peak production. From that time forward, our problem will be essentially a problem of distribution. Our tremendous capacity to produce has been amply demonstrated; but production and employment will be maintained only as we are able to find markets for the products of our farms and industry. Distribution provides the key to these wider markets, and is the vital factor in maintaining our future economic growth, with constantly increasing living standards for all our people.

The distributive services, including transportation, will find no difficulty in adjusting themselves to competition in a growing economy. I recognize the need for a reasonable return to transport enterprises, as I do for all legitimate business; but they, like other lines of industry, can profit through high volume at low rates, in the American tradition of mass production, and have no need for restrictions that will stifle progress. In a growing America, there can be no place for monopoly. The Government's fight against monopoly is a fight for freedom. Limitations on the effectiveness of that fight are in reality attacks upon our competitive free enterprise system and upon the rising future which that system implies. I sincerely hope that the Congress will not entertain such attacks. More specifically, I hope you will disapprove the legislation now before you.

Thomas J. Cullen Dead

Thomas J. Cullen, First Deputy Superintendent of the New York Insurance Department, died at his home in Albany, N. Y., on March 20. Mr. Cullen served for nearly 20 years in the Insurance Department of the State of New York. He joined the Insurance Department on April 1, 1927, when he was appointed Assistant Registrar. On Jan. 1, 1928, he succeeded John S. Andrews as Registrar and was placed in charge of the Policy Bureau. On April 1, 1930, he was appointed Executive Assistant by Superintendent Conway. The following year he was appointed Deputy Superintendent by Superintendent Pink. Following the Resignation of Superintendent Pink, Mr. Cullen served as Acting Superintendent of Insurance during the period from Feb. 1, 1943 to Sept. 23, 1943, ably carrying on the administration of the Insurance Department until the appointment of Superintendent Dineen. In connection with his work, he was active in the counsels of the National Association of Insurance Commissioners and served on important committees.

Fiber Consumption Declines in 1945

Total United States consumption of cotton, rayon, and wool in 1945 amounted to 5,923,900,000 pounds, a decline of 3% from 1944, states the "Rayon Organon," published by the Textile Economics Bureau, Inc. This 1945 total was 14% below the record consumption of 6,871,300,000 pounds in 1942. The advices from the Bureau also state:

"Rayon consumption was at an all-time high figure of 767,500,000 pounds, representing a 9% increase over 1944. Wool consumed in 1945 totaled 648,200,000 pounds, a figure near its record consumption of 652,200,000 pounds in 1941.

"Cotton consumption amounted to 4,508,200,000 pounds, a decline of 6% from 1944 and a figure 20% below the record 1942 consumption of 5,636,700,000 pounds. However, 1945 cotton consumption was still well above its 1936-1940 average of 3,525,900,000 pounds. Silk consumption in 1945 was nominal, a situation that has prevailed since 1942.

"By percentage of the four-fiber total, the 1945 figures were as follows: cotton, 76.1%; rayon, 13.0%, and wool, 10.9%. This rayon percentage was a new high figure and wool's participation in the total was the largest since 1935. But cotton's percentage was the lowest on record. By comparison, the pre-war figures for 1940 were cotton, 81.0%; rayon, 9.9%; wool, 8.4%, and silk, 0.7%.

"Consumption of cellulose in rayon manufacture during 1945 amounted to 400,000 tons, composed of 297,000 tons of dissolving wood pulp and 103,000 tons of refined cotton linters. Both of these figures represent new high figures, but wood pulp consumption has increased by only 6% since 1942, while cotton linters' useage has more than doubled.

"Domestic deliveries of rayon by producers in February totaled 63,600,000 pounds, compared with 69,700,000 pounds in January. This 9% decline was entirely due to the fewer number of working days. February rayon deliveries were composed of 50,400,000 pounds of filament yarn and 13,200,000 pounds of staple fiber.

"Total stocks of rayon held by producers at the end of February at 13,900,000 pounds continued nominal, amounting to but a six days' supply. Filament yarn stocks were 9,900,000 pounds and staple fiber stocks were 4,000,000 on Feb. 28th."

The Business Outlook

(Continued from page 2070)

the war has not materialized. Up to now, unemployment has not reached three millions.

With this background, and with the large supply of money and low interest rates, it is hardly surprising that the stock market is booming.

To be sure there are certain clouds on the horizon. Labor unrest is widespread, the international situation is by no means clarified, taxes are likely to remain very high, and the national debt looms large. But even these clouds do not dampen the pervasive optimism. Labor disputes, it is felt, will be settled; the international situation will somehow be ironed out; and taxes and the debt will not be too burdensome if only prosperity is maintained.

On the other hand, the deflationary episode of 1920 and the disaster of 1929 have not been altogether forgotten. Many thoughtful people are concerned lest we are heading for another boom and bust—or even for a bust without a boom. They are questioning whether the long-postponed *New Era* is really here.

In the present situation, it seems to me, we must guard against uncritical acceptance of prevailing opinions and attitudes. At a time like this, objectivity is indispensable in the appraisal of the business outlook.

What I have to say today is intended not so much as a forecast of things to come, as an analysis of some of the factors which may determine, largely or in part, the pattern of future economic developments.

I find myself somewhat disillusioned about business forecasts. In every dynamic economic situation, imponderables weigh so heavily in determining the outcome that definite predictions may be highly misleading. Yet it is our duty to look ahead as best we can. Every business decision—every loan, every investment, every contract—is based, explicitly or implicitly, upon a prediction of future events and future conditions. So look ahead we must, even though our forecasts can be regarded only as working assumptions which are always subject to revision.

1. THREE PERIODS

In considering the business outlook over the next several years, it is helpful to distinguish three periods of time as follows:

TABLE 1
Three Time Periods in Analysis of Economic Outlook

1. Transition Period: 1945 to middle of 1946.
   - (a) Plant reconversion.
   - (b) Demobilization of armed forces.
   - (c) Transfer of labor and capital from war industries to peacetime industries.
   - (d) Rapid reduction in Federal expenditures.
   - (e) Readjustment of wages and prices.
2. Catching-up Period: Middle of 1946 to 1948 or 1949.
   - (a) Deferred demands.
   - (b) Wartime accumulations of purchasing power.
3. Longer-run Post-War Period: 1949—
   - (a) War influences largely terminated.

We are now nearing the end of the first of these periods. It has been a period of economic reorganization when the major problem has been to get production rolling.

Second, the *catching-up period* will probably extend from this summer to perhaps 1948 or 1949. During this period, the problems of reorganization will be essentially worked out, but large deferred demands and accumulations of purchasing power—legacies of the war—will still be important.

Third, the *longer-run post-war period* will be reached when the effects of the war—both depressing and stimulating—have largely worn off. The economy will then be "on its own."

In practice, these three periods will not be clearly distinguishable. They will overlap. Nevertheless, I feel that it helps to clear up our thinking if we consider each separately.

2. SOME PRELIMINARIES

But before discussing the business outlook directly, we should dispose of a few important preliminary matters.

The Measurement of Business Activity

In order to be definite in our thinking about the business outlook, we must agree upon a method of *measuring* business activity. It may serve some purposes to describe various levels of business activity with such adjectives as *good, bad, fair, active, unfavorable, healthy, etc.* But when we really want to get down to brass tacks, and discuss the subject carefully, it is much more useful to have a definite statistical measure of business activity.

There are a number of such measures, among them, gross national product, national income, industrial production, employment, and many others. Of these, I feel that *gross national product* (GNP as it is often called) is the most useful.

Gross National Product

Gross national product is defined simply as the total value of all goods and services produced during a year. It includes goods and services produced for private consumption; it includes new plant and equipment produced for the use of private business concerns; and it includes the goods and services produced for and by government. In other words, gross national product comprises the sum total of all the things produced during a year by our land, labor, capital, and knowhow.

There are two reasons for preferring gross national product to other measures of business activity: (1) GNP refers to production which, after all, is what we are trying to measure, and (2) GNP is all-inclusive in that it embraces the entire economic system and not simply one portion or one aspect of that system.

Gross National Product and National Income

Because gross national product is often confused with national income, it may be helpful to show how these and various other similar concepts are related.

For example in 1944, as shown in Table II, gross national product was $199 billions. After subtracting business taxes of $29 billions and charges to business reserves of $10 billions, a net product of $160 billions remained. This net product is usually called *national income.*

Not all of the national income, however, was actually available to individuals. About $4 billions of it was withheld for social security taxes and $5 billions was withheld in the form of undistributed profits. At the same time, a number of individuals received transfer payments, principally in the form of relief and social security benefits, for which there was no corresponding production. Thus, adding to national income the transfer payments, and subtracting from it the contributions to social insurance and the undistributed profits, gives *income payments to individuals* of $156 billions. This was the actual money income received by individuals.

TABLE II
GROSS NATIONAL PRODUCT, NATIONAL INCOME, ETC. 1939 & 1944
(Billions of Dollars)

	1939	1944
Gross National Product	89	199
Less: Business Taxes	—10	— 29
Business Reserves for Depreciation, Depletion, Bad Debts, Etc.	— 8	— 10
National Income	71	160
Plus: Transfer Payments for relief, social security benefits, etc.	2	5
Less: Contribution to Social Insurance	— 2	— 4
Undistributed Profits of Corporations	--	— 5
Income Payments to Individuals	71	156
Less: Personal Taxes	— 3	— 19
Disposable Income	68	137
Less: Savings of Individuals	— 6	— 40
Consumer Expenditures	62	97

Source: U. S. Department of Commerce.

NOTES:

Gross National Product refers to the value of all goods and services produced during the year including the value (at costs) of the services of government.

National Income refers to the Gross National Product after allowance for business reserves and for taxes paid by business.

Income Payments to Individuals refers to income actually received by individuals including not only income paid for current productive services but also payments for relief, social insurance benefits, etc.

Disposable Income refers to income payments after deduction of all personal taxes. This is spendable income in the hands of individuals which can be used to buy goods and services for consumption (*Consumer Expenditures*) or can be saved (*Savings of Individuals*).

Of these income payments, individuals were required to pay $19 billions of personal taxes leaving *disposable income*—actual spendable income in the hands of individuals—of $137 billions. Of this amount, individuals saved $40 billions and spent $97 billions for their living expenses.

Corresponding figures for 1939 are also in Table II

The statistics on gross national product and national income, with refinements far beyond those indicated in Table II, represent a system of accounts for the whole country comparable to the accounts maintained by any private business. I may say, parenthetically, that the development of this system of national accounting is in my opinion one of the major scientific achievements of the past 10 or 15 years.

Par

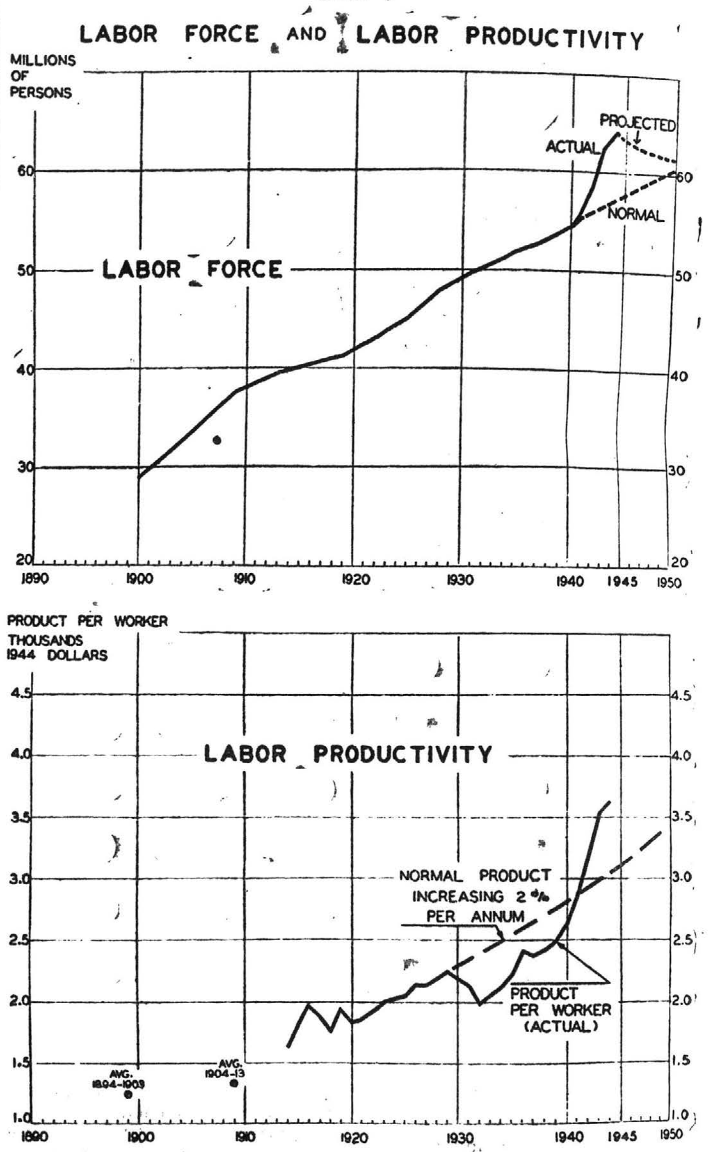
Having adopted gross national product as our measure of business activity, we must next decide what level of gross national product corresponds to full production and prosperity. For example, if the gross national product in a postwar year should be $100 billions, as it was in the prosperous year 1929, would we regard that performance as good, fair, or bad?

In my opinion, we should judge that performance, not in relation to some past year, but rather in relation the normal productive capacity of the country in the postwar year. As in golf, we would measure performance in relation to par. In golf, however, par remains about the same year after year. But for the national economy, par always increases as the productive capacity of the country grows.

Historically, the power of our people to produce has increased rapidly. This progress has been due, first, to a steady growth in the size of our working population, and, second, to a persistent increase in the amount of product a worker could produce.

This increase in product per worker has been due to many factors, the most important being the steady improvement in the health and education of our working population, the rapid advance in technical and managerial knowhow, and the increase in the amount of capital equipment available to each worker. Indeed, it is this fabulous growth in productive power that has been the basis of America's greatness.

CHART 1



The Labor Force

As shown in the upper portion of Chart 1, the labor force increased from about 30 millions in 1900 to about 54 millions in 1940. The Bureau of the Census has estimated that during the present decade 1940-50, the labor force would have increased at the rate of about 1% per year, had the war not intervened. This would have put the working population at about 60 millions in 1950 as shown by the dotted curve marked "normal." Actually, however, the labor force has risen above normal during the war as a result of selective service, and the entry of housewives, students, retired people, and others into the labor market. This is shown by the solid portion of the curve marked "actual." Many of these war extras have already withdrawn or are expected to leave the labor force shortly, but an unknown number of them — particularly women—are expected to remain. Thus, the 1950 labor force is estimated at perhaps 61 millions as shown by the dotted curve marked "projected."

Product Per Employed Worker

In the lower half of Chart 1 is shown the long-run increase in value of product per employed worker, reflecting overall progress in technology and expansion of capital. During the 40-year period, 1900-1940, annual product per employed worker, as indicated by the dots and solid curve, increased from about $1,250 to $2,600, or by more than 100%.

It should be noted that these figures have been corrected for changes in the value of money. They are expressed in 1944 dollars.

The increase in product per worker was, on the average, at the rate of about 2% per year—though during the depression of the thirties productivity was temporarily less than normal. Projection of this 2% rate into the future suggests that average product per worker will approach $3,500 by 1950.

Productive Capacity

With the overall increase in worker productivity of about 2% per year and the increase in labor force of 1% per year, the total productive power of the country may be expected to increase at the rate of about 3% per year. This is the equivalent of about 34% for a decade.

In the past, gross national product has in fact increased at the rate of 3% or better. This is shown in Chart 2 by the solid curve labeled "gross national product." (The two dots in the lower lefthand corner of the chart are extensions of this curve.)

The rapid increase is shown, for example, during the decade 1920-30, when gross national product increased from about $75 to $100 billions, or at just about the rate of 3% per year. During the depression, gross product fell off sharply. By 1941, however, it had increased to $145 billions as compared with $100 billions in 1929. Thus, by 1941, the last pre-war year, the 3% rate of increase had about been reestablished.

It seems reasonable, then, assuming that 1929 and 1941 were years of relatively full production, to measure the growth in our normal productive capacity by projecting a curve from 1929 which increases at the rate of 3% per year. In Chart 2, this curve is labeled "Capacity Gross National Product."

According to this curve, our productive capacity, i. e., par, is about $170 billions this year. It will be about $175 billions in 1947 and $190 billions in 1950.

In my judgment, this projection of productive capacity is conservative. Many careful students of the question have concluded that capacity this year is at least $175 billions and by 1950 will be well over $200 billions. My lower figure of $190 billions for 1950 is intended as a feasible and realistic par. It represents a level of activity which could be maintained without rising prices and which would allow for a substantial amount of frictional unemployment.

There are, of course, differences of opinion as to the future of our power to produce. There are some who believe that the rate of technical progress has been accelerated by the war, and that the projection of the 3% rate into the postwar years may actually understate future productivity. Others point to the fact that in the present transition period, product per worker is less than normal, and they raise a question as to whether we can expect high productivity in the future. Obviously this is not an easy question to settle. I have great difficulty, however, in accepting the view that rapid progress in productive power, characteristic of our whole history, has suddenly come to an end. I feel that the projection of the 3% rate is thoroughly justified.

Whether or not this projection of capacity is precisely accurate, it is easy to see that the amount of production required to give us prosperity, today or in 1950, is of an entirely different order from that which was sufficient in 1929 or even 1940.

Wartime Production Under Forced Draft

You will notice in Chart 2 that during the war, gross national product (the solid curve) was considerably above projected normal capacity. This was because our whole economy was working under forced draft. Many extra persons were drawn into the labor force, much overtime was worked, and production was spurred on by patriotic motives. Now that the war is over, gross national product is considerably below the extraordinary wartime level—even though prosperity continues.

Gross National Product and Industrial Production

The irregular dotted curve in Chart 2 marked "industrial production," represents the familiar Federal Reserve Board index. You will notice that the movement of industrial production has been similar to that of gross national product. However, industrial production has fluctuated more widely. This is due to the fact that industrial production includes only manufacturing and mining which are relatively unstable portions of the economy, whereas gross national product includes these and other more stable industries, such as trade, services and public utilities.

3. THE LONGER RUN

So much for the preliminaries. Let us now turn to the outlook for a year in the longer-run postwar period, say 1950.

Demand

As every businessman knows, production can be carried on only if the product can be sold. This means that for every dollar of production there must be a dollar of expenditure to buy the product. Therefore, the amount of the gross national product in any year depends on the amount of expenditures which are made to buy the product. It depends, in other words, on *demand*.

Gross national product, as I have indicated, consists of three classes of goods and services: (1) Government services (Federal, State and local), (2) consumer goods and services, and (3) capital goods.

Each of these three classes of goods and services is purchased by expenditures of a particular type. (1) Government services are purchased ordinarily by expenditures called tax payments. (2) Consumer goods and services are purchased by the every-day living expenditures of individuals. (3) Capital goods are purchased chiefly by business firms as expenditures for new plant, equipment, etc. These three kinds of expenditures together constitute the *demand* for the gross product. The amount of the gross product depends upon the amount of these expenditures. Thus, to estimate future gross product, we must estimate how much will be spent for each of these three classes of goods and services.

Expenditure Requirement for 1950

As indicated in Chart 2, par in 1950 will be about $190 billions of gross national product. In appraising the outlook for 1950, i. e., in trying to determine whether we are likely to shoot par, we must estimate the possible pattern of expenditures in that year.

For this, let us turn to Table III. The upper portion of this chart is similar to Table II which you have already seen.

To begin, let us *assume* that gross national product in 1950 is $190 billions as shown at the top of the second column. We can then deduce or estimate the amount of the other items in the chart.

As I see the outlook for Government operations, total expenditures (Federal, state and local) will be about $35 billions, of which about $20 billions will be derived from business taxes and $15 billions from personal taxes.

TABLE III

GROSS NATIONAL PRODUCT

(Billions of Dollars)

	1947	1950
Gross National Product (Assumed)	175	190
Less: Business Taxes	— 20	— 20
Business Reserves	— 9	— 9
National Income	146	161
Plus: Transfer Payments	4	4
Less: Contributions to Social Insurance	— 4	— 4
Undistributed Profits	— 5	— 5
Income Payments to Individuals	141	156
Less: Personal Taxes	— 15	— 15
Disposable Income	126	141
Less: Savings of Individuals	— 10	— 19
Consumer Expenditures	116	122

GROSS NATIONAL EXPENDITURES

(Billions of Dollars)

	1947		1950	
For Government Services				
Business Taxes	20		20	
Personal Taxes	15	35	15	35
For Consumer Goods		116		122
For Capital Goods				
Business Reserves	9		9	
Undistributed Profits	5		5	
Savings of Individuals	10	24	19	33
Gross National Expenditures		175		190

Business reserves, consisting mainly of accruals to the reserves for depreciation and depletion are relatively stable from year to year. They were running consistently at $7-8 billions before the war, but with the growth of our capital plant may reach $9 billions in future years.

With gross national product at the assumed high level of $190 billions, transfer payments and contributions to social insurance funds may possibly balance at about $4 billions each.

Undistributed profits during the thirties were often negative. In 1941, they were $4 billions, and during the war have been running at $4-5 billions. With large profits and lower taxes, they may be $5 billions or more after the war.

With these adjustments, our estimate of disposable income, assuming a gross product of $190 billions, is $141 billions. This is income actually available to consumers after allowance for reserves, taxes, and undistributed profits. It is the item that largely controls consumer expenditures.

In past prosperous years, individuals have spent for consumption about seven-eighths of their disposable income. On the basis of this experience, we may set consumer expenditures at $122 billions and savings at $19 billions. This estimate of consumer expenditures, it should be noted, is subject to considerable error.

This completes the estimate of the various items in the upper portion of this chart. You will recall that each item has been estimated on the *assumption* that grosss national product in 1950 will be $190 billions.

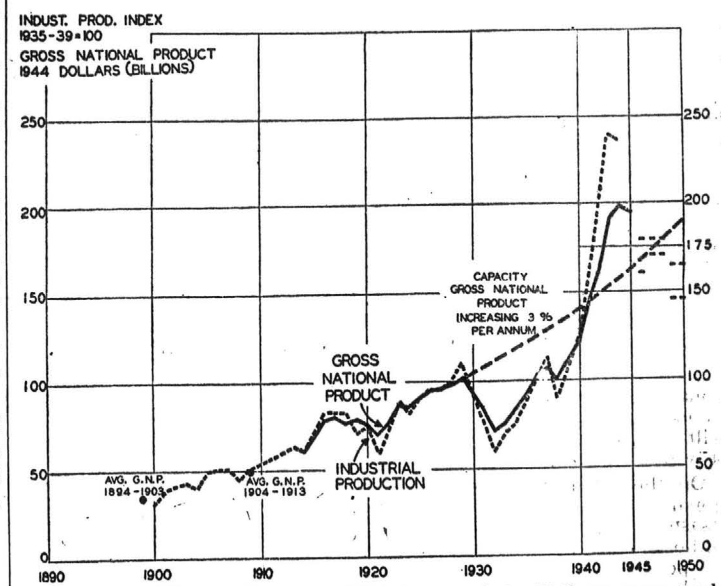
We can now reclassify these items into the three categories of expenditures to buy the three classes of gross national product. This is done in the lower portion of Table III.

Business taxes and personal taxes would be classified as expenditures to buy Government services, totaling $35 billions. Consumer expenditures of $122 billions would be classed as expenditures used to buy consumer goods. Business reserves, undistributed profits, and individual savings, totaling $33 billions, would be classed as funds available to buy newly-produced capital goods, i. e., available for private investment. These are the approximate expenditure *requirements*, if $190 billions of gross product is to be produced.

We have every reason to expect that the Government will spend at least $35 billions. Moreover, if the gross national product is as high as $190 billions, we may, optimistically, expect individuals to buy $122 billions of consumer goods. But this leaves $33 billions which must be spent for new capital goods if we are to get $190 billions of gross product.

CHART 2

U.S. PRODUCTION



Can we expect business to spend $33 billions to buy new capital goods?

To answer this question, it may be worthwhile to pause for a moment to appraise our investment prospects. For this let us turn to Chart 3.

Outlook for Private Investment

There are five kinds of private investment on which the $33 billions could be spent to create demand for new production.

(1) Producers' durable equipment (industrial and commercial machinery, fixtures, and equipment).

(2) Residential construction (housing).

(3) Non-residential construction (industrial and commercial plant).

(4) Net exports (foreign investment).

(5) Net increases in inventories.

Unfortunately, no reliable method is known for predicting what the amounts of these five items will be in a relatively distant future period. If there were such a method, business forecasting would be child's play. We do know what these investment items have amounted to in past years. Chart 3 shows the amount of each item and the total for each year from 1919 to 1944. Careful studies have been made indicating the amount of new capital goods that would be required to put the nation's productive facilities in top condition and keep them there. Moreover, there are many reasonably informed guesses of experts as to the likely amount that may be invested in new plant, equipment, housing, export balances, and inventories. Assembling all of these data, I have made some very rough estimates as to the prospective amount of each of the five items. These estimates for 1950 are shown by the small marks at the right-hand edge of Chart 3, as follows (starting from the bottom):

	billions of dollars
Net inventory change	0 - 1
Net exports	1 - 3
Non-residential construction	2 - 5
Residential construction	2 - 5
Producers durable equipment	7 - 10

You will notice, in each case, that the estimates for 1950 are fairly liberal in relation to past experience. The maximum esti-

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The Business Outlook

(Continued from page 2105)

mate for most types of capital goods is about equal to the highest figure on record, and the minimum estimate is about equal to the average performance in past years.

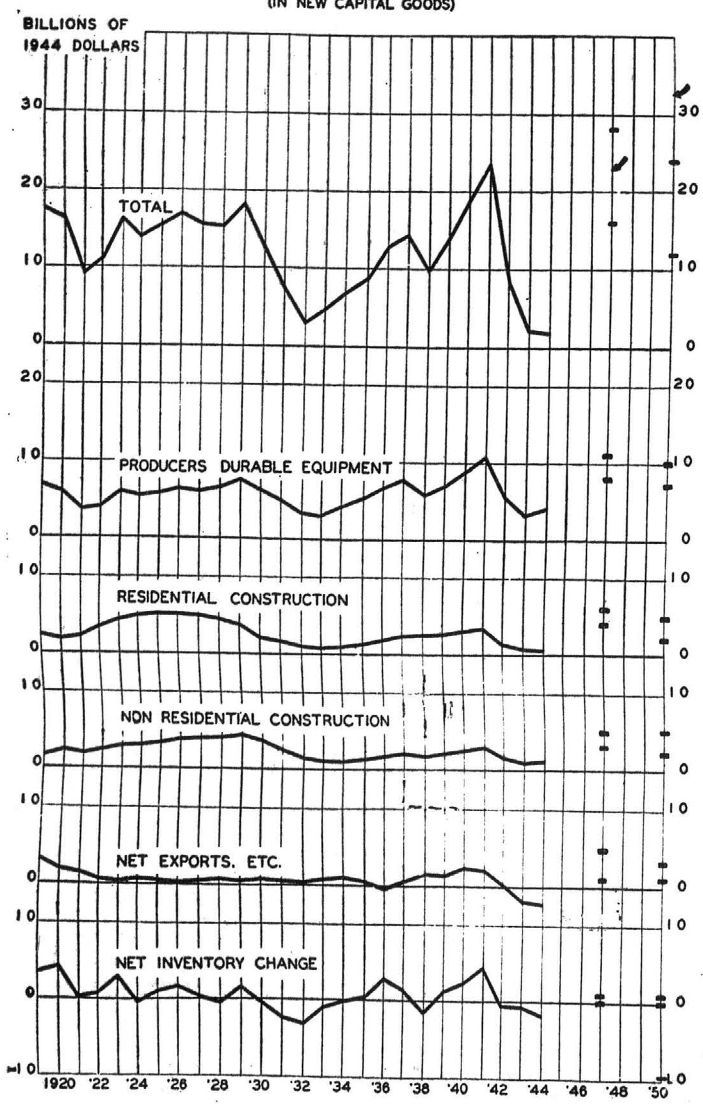
I have some qualms as to whether the figures on non-residential construction and durable producers equipment are not too high, in view of the enormous development of our industrial plant during the war.

Adding up the estimates for the five items gives a range of from $12 to $24 billions—which is shown by the marks at the upper right-hand edge of Chart 3. The top figure of $24 billions represents a maximum estimate of the amount of production for capital account which could be sustained. It is greater than the 1941 figure of $23 billions, and $6 billions greater than the earlier peak of $18 billions which was achieved in 1929. The minimum of $12 billions on the other hand, is about equal to the *average* for the years 1919-1940. The mid-point of the range of $12 to $24 billions is $18 billions. Perhaps this may be taken as a reasonable figure—though it is just a guess and should not be regarded as a firmly-grounded estimate.

CHART 3

PRIVATE INVESTMENT

(IN NEW CAPITAL GOODS)



The conclusion is that the total production of plant, equipment, housing, net exports, and inventory increases is not likely—even with the most optimistic assumptions—to reach the $33 billions required for capacity production. This $33 billions is marked by an arrow near the upper right hand corner of Chart 3. At best such production is not likely to exceed $24 billions, and it may well fall to $12 billions. Thus, actual investment may fall short of the goal by an amount ranging from $9 to $21 billions. Or if the midpoint of $18 billions is accepted as the best estimate, the deficiency would be $15 billions.

The Business Outlook for 1950

Offhand, it might be thought not too serious if we should miss the goal of $33 billions by, say, $15 billions. It might be supposed that this would merely reduce gross national product from the capacity level of $190 billions down to $175 billions which would be fairly creditable showing.

The truth is, however, that a gap of $15 billions in investment would reduce gross national product to $175 billions *in the first instance*, but at this level of gross national product, incomes would fall and consumer expenditures would be decreased, thus reducing gross national product still further, thus reducing consumer expenditures again, and so on. Moreover, as production fell off, public confidence would be impaired and investment plans would be cancelled, again reducing gross national product.

What I am describing is the well-known deflationary spiral in which a reduction of expenditures at one point in the system reduces the incomes of others, which in turn reduces their expenditures, which reduces the incomes of still others, etc. This downward spiral would continue until an equilibrium would be reached where the sum of the three types of expenditures would be sufficient to buy the total product. On the unlikely assumption that the government budget would remain balanced, an initial $15 billions gap in investment might depress the gross national product down to $120 or $130 billions or to perhaps two-thirds of capacity. At this level, unemployment might reach 15 to 20 million persons. This explains the overwhelming importance of investment in maintaining prosperity.

In practice, however, the public budget would not stay balanced and other things would not remain unchanged. Tax yields would fall off, contributions to the social insurance funds would drop, and government expenditures would increase. Moreover, the savings of individuals would decline, along with undistributed profits thus reducing the amount of investible funds below $33 billions. As a result of all these changes, the fall in gross national product would tend to be cushioned, even if the government did not embark upon a full-scale spending program.

Under these conditions, however, almost any government, regardless of party, would undertake a spending program. Thus one's final estimate of the gross national product would depend in part on a political forecast of what the government would do, how much would be spent, and how effective its efforts would be. In my judgment, any government will spend to whatever point it feels is necessary to hold the economy together and to maintain itself in power. The recollection of President Hoover's experience on this point is very strong. Therefore, I would guess that the actual gross national product in 1950 would be at least 75 to 85% of capacity, or roughly $145 to $165 billions—which would be the equivalent of 8 to 15 million persons unemployed.

If you will turn back to Chart 2, you will see the estimate of $145 to $165 billions indicated by small marks at the right-hand edge of the chart. You can see there how these estimated levels compare with normal capacity in 1950 of $190 billions.

I must emphasize that all of these estimates are guesses of the crudest kind. They are intended to illustrate the problem, not to provide specific forecasts. The only firm conclusion from all this analysis is that gross national product is unlikely to remain indefinitely at or near the capacity level of $190 billions.

Let us turn now to a consideration of the outlook during the catching-up period.

4. THE CATCHING-UP PERIOD

The catching-up period will begin shortly when production gets into full swing and will extend perhaps to 1948 or 1949. It will be a period when the physical obstacles to production, experienced during the transition, will have been surmounted.

To achieve capacity production will be much easier in the catching-up period than later on. The market will be bolstered by deferred demands and accumulated purchasing power left over from the war. At the same time, productive capacity will be less. As shown in Chart 2, capacity gross national product in 1947, for example, will be about $175 billions as compared with $190 billions in 1950.

Expenditure Requirements For 1947

To analyze the business outlook for a year during the catching-up period, say 1947, the same procedure can be used as was used for 1950.

The arithmetic is shown in Table III. Starting with an assumed gross national product of $175 billions, expenditures for government services are estimated at $35 billions and expenditures for consumer goods at $116 billions, including about $6 billions for deferred consumer demands. This leaves $24 billions available for buying capital goods. These figures are shown in the lower portion of the table in the column labeled 1947.

To determine the prospects for private investment to offset this $24 billions, we turn again to the five capital items in Chart 3.

Outlook for Private Investment

On the basis of such information and expert opinion as is available, and it is admittedly inadequate, I have made the following estimates of capital investment in 1947 (each estimate is indicated on Chart 3 by small marks):

	billions of dollars
Net inventory change	0 - 1
Net exports	2 - 5
Non-residential construction	3 - 5
Residential construction	4 - 6
Producers durable equipment	8 - 11

Combining the five items gives an estimated total for private capital expenditure of $17 to $28 billions. The midpoint of this range is $22 or $23 billions which compares very favorably with the $24 billions which might be needed for capacity production in 1947.

The Business Outlook for 1947

In view of large anticipated investment in new capital goods and the expenditures of consumers to make good on their deferred demands, I should expect 1947 to be a prosperous year with a gross national product of perhaps $170 to $180 billions which is about at the capacity level (see Chart 2).

5. THE CURRENT YEAR 1946

We now come to the present year, 1946.

I think you will all agree that 1946 is and will continue to be a year of intense activity. Consumers and businessmen will be trying desperately to meet their deferred demands, and they have abundant funds for the purpose. All of this demand will be pressing for outlet at a time when large scale production is just getting under way, and the pipe lines to consumers are not yet filled.

Capacity gross national product, as shown in Chart 2, will be about $170 billions (in terms of 1944 prices)—as compared with $175 billions in 1947 and $190 billions in 1950. For several reasons, it is possible that production will exceed the capacity level. Some overtime work may be continued and a considerable number of extra persons may remain in the labor force. Considering these factors, it is probable that gross national product in 1946 will fall near the upper limit of the range of $160 and $180 billions, shown by the small marks in Chart 2. This compares with $197 billions in the year just passed, 1945, and about $200 billions in 1944.

Prices

The possibility of commodity price increases in 1946 is very great. This is the greatest uncertainty for 1946.

There are obvious and powerful forces exerting an upward thrust on prices. On the one hand, demands are large, liquid funds are enormous, and there seems to be a growing inflationary psychology induced by scarcities and by bullish attitudes regarding future economic conditions. On the other hand, there are physical problems in getting a flow of goods on the market, and labor costs are rising.

Looking only at these factors, many analysts have concluded that drastic price rises are inevitable. There are, however, important opposing considerations, and these must be examined if the whole situation is to be put into perspective.

During 1946, some of the forces leading to inflation will subside. Especially, the government deficit is being wiped out, and the current incomes of individuals will be lower—even though they will still be high.

Moreover, the production of civilian goods will be much greater than last year. It is probable that the supply of most raw materials, non-durable consumer goods, and services, i.e., most goods except durables, will be sufficient before the end of the year to meet demands without upward price movements. These goods make up the bulk of the national product.

The persistent pressure on prices will be in the durable goods industries which represent not more than 15% or 20% of total production. There are several factors, however, likely to prevent a drastic rise in the price of durable goods. (1) The flow of these goods to consumers will probably become very large during 1946, thus reducing the pressure on prices. (2) The producers of these goods are mostly large and well-established firms which are likely to show restraint in their price policies for fear of adverse public reaction, more rigid governmental controls, and increased pressure from labor.

In any case, some form of governmental price control at least on durable consumer goods, is likely to be continued until the danger of drastic price increases subsides. It must be recognized, however, that price controls will become steadily weaker.

Let us turn now to the cost side of the inflation picture. Although wage rates are likely to rise this year, perhaps by 10% or 15% overall, it is not certain that costs as a whole will rise.

The cost situation will be affected by many diverse influences. Costs will be increased not only by the rise in wage rates. They will be increased also by a rise in unit overhead costs due to the decline in output as compared with last year and by increased selling and distribution costs. On the other hand, many very important influences will be operating to reduce costs, among them, the application of new technical developments, the elimination of premium wage rates for overtime work, the withdrawal of marginal workers from the labor force, the return of more efficient workers from the armed forces, the reduction in labor turnover, and the down-grading of labor.

The net effect of all these influences upon costs is difficult to measure. At any rate, it is not clearly established that net costs will rise. However, even if they do move upward, a considerable portion of any increase can be offset by the recent reduction in taxes. Moreover, in many lines, notably retail trade and service industries, greater competition will force increased costs to be absorbed in profits.

Taking all these factors into consideration, it appears that any price advance in 1946 is likely to be moderate. Even assuming continuing relaxation of price controls, the increase in price will probably represent a continuation of wartime price trends and will be not more than 10%. There is no doubt, however, that a much more drastic increase could happen. All of the factors needed to bring this about lie in the background and could easily become active.

The one area where, in my judgment, a persistent increase in prices is likely is in housing and house rent. Apparently, the only answer in this field is continued public control.

Many observers are interpreting the current boom in stock prices as a manifestation of inflation. It seems to me that stock prices, at least up to the present time, can be explained largely in terms of the prevailing low interest rates and the favorable near-term outlook for corporate earnings. In any case, it does not necessarily follow from the behavior of the stock market that commodity prices will advance sharply.

Business Outlook for 1946

To summarize, I expect gross national product in 1946 to be near or above the capacity rate of $170 billions and I expect prices to move upward moderately. I am well aware, however, that the price situation is explosive, and a rapid advance is by no means out of the question. If prices are held in reasonable check during early 1946, then production will probably catch up during the latter part of the year and the threat of drastic increases will be averted. Thus, the next several months are extremely crucial on the price front.

6. CONCLUSIONS

This completes the analysis of the general economic outlook for the next several years. By way of summary, I should like to review the main conclusions and to indicate some of the implications and qualifications.

The general movement of gross national product for the next several years, as suggested by the analysis is shown in Chart 2 by the small marks in the right-hand portion. In 1946, gross national product is estimated to be about $160-180 billions indicated by the first pair of marks; in 1947 and 1948, at the height of the catching-up period, the estimate is $170-180 billions; in 1949 and 1950, after the predicted decline, the estimate is $145-165 billions.

Qualifications

In conclusion, I should like to offer a few warnings and qualification regarding my whole analysis of the business outlook as summarized in Chart 2.

There is room for wide difference of opinion on three points.

First, there are differences as to the length of the period of prosperity before a recession sets in. Estimates usually vary from one to seven years. A few writers see an indefinite period of prosperity ahead. I happen to be relatively pessimistic on this point. I expect most deferred demands (excepting housing) to be made up by the end of 1948, and for the level of production to fall sometime between 1948 and 1950. I may easily be very wrong on this.

Indeed, if the period of prosperity develops into a first-rate boom, it may last longer and culminate in a more resounding crash than would be the case if the prosperity were less spectacular.

Second, there are differences of opinion as to the depth of the depression when it does come. I feel that the depression will be potentially serious, but that the government will act fairly promptly with some sort of spending program to prevent catastrophe. On this, there are other viewpoints—both as to what the government would do and what the results might be.

Third, there are differences of opinion on whether drastic price increases will develop during the boom period. I feel that prices will be held fairly well in line and that increases will be moderate, but not everyone shares this view.

The actual course of events, it seems to me, will depend in no small degree upon such unpredictable factors as international developments, fluctuations in public psychology and changes in the policy of the Federal Government. The conclusions are in the realm of opinions and judgments.

Hahn to Speak in Chicago

Lew Hahn, General Manager and Treasurer of the National Retail Dry Goods Association, will speak to delegates attending the 13th annual conference of the Credit Management Division, NRDGA, on "Stimulating Production Through Sound Price Controls" at a luncheon in the La Salle Hotel, Chicago, on April 24, it is announced by J. Gordon Dakins, Manager of the group. Chicago merchants and retail executives have been invited to join the credit men when Mr. Hahn presents his views on price control, Mr. Dakins said.

U. S. Trade Opportunities in China

(Continued from page 2083)

their furs, ginseng and silver for the teas, silks and curios of China. They made friends with the Chinese people and enjoyed an amicable trade with the Celestials. They were able to compete successfully with the English merchants who operated under the monopoly of the powerful East India Co. in its typical colonial trading style.

Unfortunately, the clash between the isolationism of the old self-sufficing Celestial dynasty and the imperialism of the ever-expanding western conquerors resulted in the infamous Opium War of 1840, terminating by the Treaty of Nanking on Aug. 29, 1842 with the British, whereby China was forced to open five ports to foreign trade and grant special privileges to the British merchants.

Thereupon, in order not to suffer any disadvantage in the competitive position of its traders in China, the U. S. Government sent its first commissioner, Caleb Cushing, to negotiate a treaty with China with instructions to secure the same rights and privileges granted the most favored nation. Such a treaty was signed on July 3, 1844. Similar rights and privileges were demanded by and granted to other powers. These were later known as unequal treaties which China sought for half a century to abrogate.

Crippling Effects of Former Trade Treaties

Among the unequal treaty commitments forced upon China there were two that had, undoubtedly, shackled the full growth of China's foreign trade, namely: (1) limitation of China's authority to regulate its own tariff and (2) exemption of foreign nationals from the jurisidiction of the Chinese laws.

One cannot imagine the harmful effects of such provisions and the extent to which they penetrate into the political and economic life of a country unless one has lived under their impact in the country where such provisions operated. Under the tariff limitation clause China was forced to collect a fixed 5% ad valorem duty plus 2½% transit dues on all articles of import on fixed valuations of certain years, which often became so obsolete so as to make the actual collection much less. There was no way for China to encourage or discourage any item or class of commodities for import according to the dictate of her economy or national needs; there was no way for her to foster the growth of her young industries; there was no way even at times of great financial stress to increase its revenue from customs receipts. For one hundred years China was deprived of a powerful weapon to regulate her economic needs, to strengthen her national finance and to assist industrialization. It was only after many years of determined struggle for treaty revision that the National Government of China was able to make its voice heard. In 1928 the United States took the lead in restoring the tariff autonomy to China but the benefit was practically nullified by the refusal of the Japanese to follow suit and shortly thereafter by invasion of Manchuria in 1931.

Extraterritorial rights enjoyed by foreign nationals in China erected a permanent gulf between the Chinese and foreigners, especially after repeated injustices suffered by the Chinese when arbitray protection was given to foreign culprits by their consuls. As long as foreigners were not amenable to Chinese laws the Chinese Government insisted on confining their residence and trading activities to the treaty ports. Mutual suspicion necessarily restricted the sphere and extent of trading activities. Instances are not lacking where American missionaries who are allowed to reside in the interior of China have discovered products of commercial value and by their introduction into the market substantial trade has developed. Had not the foreign traders been confined to the treaty ports more extensive trade in wider fields might have taken place. Although no one can estimate to what extent the volume or character of China's foreign trade might have changed, had there not existed the harmful effects of such treaty provisions, it is safe to assume that in the absence of such effects trade volume should have been greater and character would be somewhat different. A casual review of Japan's trade with the outside world and a comparison with that of China should lead us to discover some truth in this assertion.

World War II Changes

Now what changes have taken place during the World War II? Eight years of armed struggle under the most trying conditions against a first class modern war machine has revealed the real vitality of the 450,000,000 chinese, whose endurance and cohesion under tremendous onslaught has demonstrated their intrinsic quality for nation building and whose tenacity in clinging to the unswerving faith in the ultimate victory of the democracy, their own peril and suffering notwithstanding, has earned the full recognition of the U. S. and other nations for China's equal partnership in this armed struggle. As a result, the U. S. A. took the lead in signing a treaty with China on Jan. 11, 1943 abrogating the extraterritorial rights enjoyed by American nationals in China since 1844 and relinquishing other concessions and privileges which were incompatible with an independent and soverign power. By the same treaty U. S. secured for its nationals: (1) full protection of their rights and interests legitimately acquired in China, (2) the rights to travel, reside and carry on trade throughout the whole extent of its territory and (3) equal treatment with its own nationals in regard to all legal proceedings, in matters relating to the administration of justice and to the levying of taxes or requirements in connection therewith. The future trade between U. S. and China will be conducted as between two equals, with mutual respect, and to the same extent in treatment on the basis of equality and reciprocity. Similar treaties were signed with Great Britain and other nations. A new era is opened for the free and unhampered development of China's foreign trade in general and trade with U. S. in particular.

Trade between U. S. and China has enjoyed a steady growth since its inception and reached its highest levels in the years 1918-1921 and again 1927-30. From 1911 to 1937 American exports to China exceeded imports from China only in the years 1921, 1931, 1932 and 1934 and in other years U. S. bought more from China than it sold to China. From the point of view of U. S. total trade China's share has never been significant with American export to China occupying 1½% to 3½% and imports from China 3% to 5%. But basing on China's total trade U.S. share both in import and export is much more important. What is significant is the fact that during the past 100 years China's trade has indicated a steady and cotninuous growth in spite of shackles and handicaps and with a determined resiliency after years of extreme trouble, political and otherwise. Whenever there were signs of internal tranquillity

(Continued on page 2108)

Securities Salesman's Corner

By JOHN DUTTON

This Is A Personal Business

The time you spend visiting with your customers is not wasted. If any business demands that a salesman devote the larger portion of his time making what are called "service calls," it is the securities business. After a while your customers begin to make demands upon your time. If they don't do so there is something wrong with the way you are selling. If you don't get some calls to do an occasional favor from your customers, better find out the reason why.

That is the way it should be. Customers eventually must become friends. Nothing is more important than their health and their financial welfare. The doctor and the securities salesman are on a par. No business is more confidential than the investment business.

One way to develop this relationship is to show an interest in your clients' welfare regarding other matters, as well as their investments. We know of one salesman who made it his business to inform those of his customers that were occasional users of the railroad and air line services, that he could help them procure hard-to-get reservations. You can be sure that he has been mighty busy these past few months doing just that. He has been making better sales talks than he ever made presenting a stock or a bond—he's been presenting tickets, and those tickets are appreciated these days. People don't want to be sold anything. *They want to buy* things from people that they like, and that they believe have their welfare at heart.

This column has been criticized before, for advocating that salesmen ingratiate themselves with their customers. From our viewpoint we can't see what is wrong with this policy. You certainly can't make friends, build confidence (the basis for every business relationship) or create goodwill by being indifferent to your customers. Some years ago even Henry Ford had to admit that he had to give the public what they wanted. People want to be considered important to somebody else. We instinctively gravitate to the man who shows us consideration, listens to our ideas, asks us for advice, and remembers to call us up once in a while and invites us out to lunch.

But no man can be a hypocrite in this game. If you want to play it, you've got to be dead on the level. First of all, it isn't everybody in this world that you can like, and that will like you. It's true that a salesman gets paid for doing a lot of things that many other people would not do. But there are enough people to whom you will gravitate, and they to you; that liking them will come about as a natural sort of thing.

A successful bond salesman once advocated that a salesman should never spend his lunch hour alone. Five luncheons a week with different customers or prospects will pay for themselves many times over in goodwill and in future business. It's a salesman's way of advertising. Flowers sent to a customer on an appropriate occasion—the theatre party—even a clipping from the paper with a note—they all have their important place in building a business.

And if you do these things well, and that means sincerely, you won't have to worry about finding someone that can buy something from you. You will only have to think well and hard about what you want to sell. That's the big job in this business—finding good securities for your customers. The rest consists of using your time to advantage, using your head, and being yourself. Like people and show it—business follows.

Aid Voted for Philippines

A bill authorizing $525,000,000 to be expended in rehabilitation of the Philippine Islands was passed unanimously by a voice vote of the House on April 10, and was sent to a Senate-House Conference Committee so that the differences between it and the Senate passed measure could be ironed out, an Associated Press Washington dispatch stated. The House bill also contained provision to permit the transfer to the Philippines of war surplus property to a value of another $100,000,000.

Allocating $120,000,000 for repairs to property of the Philippine Government, the bill undertakes to establish a War Damage Commission to distribute funds in part payment for war damages. The legislation also makes available $5,000,000 to repair damages to property owned by the United States Government.

U. S. Trade Opportunities in China

(Continued from page 2107)

or external peace the trade volume advanced by its own momentum. What is more significant is the fact that while in former years Great Britain, Germany and Japan have taken the leading role in China's export and import, the U. S. has steadily improved its position and has taken the lead since 1931, the year that Japanese occupied Manchuria. Even with the loss of Manchuria, China's foreign trade continued its growth. The first six months of 1937 showed the greatest expansion in China's foreign trade until its momentum was suddenly slowed down by the Japanese war machine rolling into China in July. Such phenomenal growth was generally attributed to internal stability and steady growth of Chinese industrialization.

Favorable and Unfavorable Factors

Now the victory is won and the stage is set for a further expansion of China's foreign trade. Let us consider what are the favorable and unfavorable factors concerning the prospects.

I. Favorable factors:

(a) Removal of former artificial impediments opened up a new era for free and equal trade between China and other nations;

(b) China's cooperation with U. S. A. in world organizations such as UNO, UNRRA, World Fund and Bank will bring about closer coordination in facilitating trade between the two countries;

(c) Presence of an urgent demand for all goods in China as a result of over three years complete blockage—consumers, producers and capital goods alike which U. S. A. can best supply;

(d) Presence in China of a national will to industrialize;

(e) Accumulation of certain amount of U. S. dollar exchange in private deposits, government balances and U. S. credits available for purchases;

(f) Consuming capacity of American industry and the public for Chinese products;

(g) A general enthusiasm of American traders to get back to China and pick up where they left off;

(h) Resumption of Chinese overseas remittances.

II. Unfavorable factors:

(a) Runaway inflation in China not yet put under control;

(b) Damage to transportation equipment requiring time to repair and recondition;

(c) Manchuria problem and loss of industrial equipments there impede the start of reconstruction;

(d) High cost of living and difficulty in transportation slows down the production and movement of export commodities.

Future Pattern of Trade

In the first two to three years foreign trade between the United States and China will probably follow the prewar pattern with emphasis first on consumption goods and later shifted to producer and capital goods. In China there will be urgent problems of rehabilitation, repair and reconditioning of old equipment and industrial plants; reorganization of political and financial machinery; disbanding of soldiers and returning refugees to their homes; reorganization of currency and revival of production. In the U. S. A. there will be gradual loosening of war controls, readjustment of wage and price structure, reconversion of industry, reemployment of war veterans, reorganization of shipping and air services, promotion of civilian production. During this pericd trade will gradually return to a normal basis.

Three factors will determine the extent and character of China's future trade with U. S. A. The first is to what extent the U. S. A. will restore and expand the imports from China. Trade between U. S. and China has been largely complementary; imports from China such as tung oil, hog bristles, tin, silk, tea, antimony, tungsten, wool, vegetable oil, egg products, hides and skins, etc., are either commodities which are insufficiently produced in the U S. A. or not at all. On the other hand, U. S. exports to China consisting of cotton, petroleum, wheat, lumber, tobacco, iron and steel, metals, machinery and many manufactured articles, are also either insufficiently produced in China or not at all. Due to the blockading of China's seacoast Chinese products for several years have stopped coming and substitutes have developed in this country, for example—nylon for silk, linseed and dehydrated castor oils for tung oil, new tinning process for economizing the use of tin, Indian and Ceylon tea for China tea, machine made laces for hand made laces, etc. In most cases substitutes do not possess the quality and adaptability of the original imports and reintroduction of the goods at competitive prices will insure a good market whereas in other instances substitutes have taken a permanent share of the market. Inasmuch as China's U. S. dollar exchange reserve is rather limited importation of American goods has to be governed by her ability to create dollar exchange by export of Chinese goods.

The second factor which will affect the character of China's imports would be the extent and rapidity with which the Chinese industrialization program will be carried out. The 8-year war fought without an industrial base to provide war weapons and munitions and the danger of relying on foreign supply at a time of universal scramble for war material taught China a hard lesson and created in her people, leaders and masses alike, an urgent desire for quick and large scale industrialization. The will to industrialize is present everywhere. If China has to rely entirely on her own financial strength and technical skill progress will be slow and changing in character of her imports will be selective and slow. On account of exchange control the proportion for producers goods, and machinery and equipment will grow steadily larger and for consumer goods will grow steadily smaller, whereas luxuries will be strictly limited. On the other hand, if external aid in the way of foreign government credits or private investments in capital equipment and know-how is made available in liberal amounts both volume and percentage of producers goods and machinery and equipment will increase without sacrificing the steady growth of importation of consumers goods and luxuries.

A third factor that is bound to influence China's trade with U. S. is U. S. policy vis-a-vis Japanese trade. With Japan being deprived of war and heavy industries and being allowed to export native products only to the extent necessary for payment of import of necessities, a vacuum will be created in the Eastern markets. Due to low purchasing power of these markets such cheap commodities formerly furnished by Japan will not be produced in the U. S. China is the logical country to fill this vacuum. If China is aided and given this opportunity she will be able to manufacture and export cheaper grades of manufactured articles to the Eastern markets in exchange for materials required in U. S. manufacturing industries. Trade between U. S. and China may be greatly increased thereby.

Effect of Germany's Elimination

Elimination of Germany and Japan from the China market will automatically increase the U. S. share of China trade. While U. S. had already attained the first position in china's foreign trade as a whole there were specific items in which either Germany or Japan was still ahead. For example, the relative positions of the several leading countries during the two years immediately preceding the Japanese attack on China were as follows:

Imports

	1936	1937
1. U. S. A.	19.6%	19.8%
2. Japan	16.3%	15.7%
3. Germany	15.9%	15.3%
4. Gt. Britain	11.7%	11.7%

Exports

	1936	1937
1. U. S. A.	26.4%	27.6%
2. Japan	14.4%	10.0%
3. Gt. Britain	9.2%	9.6%
4. Germany	5.5%	8.6%

In specific items where U. S. occupied secondary position but with great possibility of improvement we cite a few as examples (years 1935-1937):

Electric generators and parts, including turbo-generator sets:

Germany	46%
Great Britain	18%
Switzerland	14%
Japan	9%
U. S. A.	7%

Electric motors and parts:

Japan	32%
Great Britain	14%
Germany	28%
U. S. A.	6%

Electrical transformers and other electrical machinery:

Germany	39%
Great Britain	27%
Japan	17%
U. S. A.	4%

Electric cables and wires:

Japan	38%
Germany	30%
Great Britain	17%
U. S. A.	4%

Electric meters:

Germany	55%
U. S. A.	16%
Japan	9%
Great Britain	5%

Electrical fittings, fixtures, appliances, cells and other accessories:

U. S. A.	36%
Japan	20%
Great Britain	18%
Germany	18%

Textile machinery and parts:

Japan	71%
Great Britain	19%
Germany	3%
U. S. A.	2%

Hand tools:

Germany	28%
U. S. A.	25%
Great Britain	22%
Japan	17%

Machine tools:

Germany	45%
U. S. A.	20%
Great Britain	18%
Japan	5%

Gas engines:

Germany	34%
U. S. A.	30%
Great Britain	29%
Japan	7%

Heavy and crude oil engines:

Germany	52%
Great Britain	34%
Japan	5%
U. S. A.	1%

Steam engines:

Germany	27%
Great Britain	26%
Japan	21%
U. S. A.	15%

Machinery for sugar refining, distilling and brewing:

Czechoslovakia	74%
U. S. A.	11%
Germany	10%

Flour mill machinery:

Germany	56%
Great Britain	18%
Switzerland	16%
U. S. A.	5%

Telephone and telegraph instruments and parts:

Germany	43%
Belgium	17%
U. S. A.	13%

Printing and paper making machinery:

Sweden	49%
Germany	18%
U. S. A.	13%

Iron and steel products — in most items Belgium, Germany, Great Britain and sometimes Japan were ahead of U. S. A.

In all the above classes of products U. S. A. can easily increase its share to replace Germany and Japan at least partially after their heavy industries are eliminated.

China's Industrialization

It is not the replacing of German and Japanese shares of the China trade by U. S. A. that is important at all. It is the future inevitable development of the Chinese market through industrialization for the coming years that is gong to be epoch making. Citation of a few figures of comparison will help you to grasp the immensity of China's potential market. U. S. has 240,000 miles of railroads, China has only 12,000; U. S. has 545,000 miles of State highways, China has only 98,000; U. S. has 32,450,000 registered motor vehicles, or five persons to each vehicle, China has only 71,140, 6,400 persons to each vehicle; U. S. has 20,830,000 telephones, China has only 160,000. Among 5,000 cities that need electric lighting, water works, rapid transit system, improved sanitation and housing, less than 100 have part or all of these modern improvements. Modern conveniences and comfort such as refrigeration, radio, modern plumbing, heating systems, electrical appliances, considered as daily necessities in this country, are still luxuries to the Chinese.

With a firm determination to industrialize, China is clearing her deck for action. Several industrial programs have been proposed. The earliest and still the most comprehensive program is outlined in the book of Dr. Sun Yat-sen, the father of the Chinese Republic, "International Development of China," which provided among other extensive programs the building of 100,000 miles of railway, 1,000,000 miles of highway, improvement of rivers and canals, iron and steel works, irrigation, improvement of agricultural, mineral and manufacturing industries, etc. Generalissimo Chiang Kai-shek, now Chairman of the National Government, in his recently published book "China's Destiny" proposed in a program of postwar industrial reconstruction, among other things, the construction of 20,000 kilometers of railways, the production of 220,000 automobiles, 12,000 transport planes and other projects in more moderate scale than proposed by Dr. Sun Yat-sen.

Dr. Wong Wen-hao, Minister of Economic Affairs, proposed certain goals for a ten year program for China's industrial reconstruction which are as follows:

	Total Output for 10 years	10th year Output
Steel	14,000,000 tons	5,000,000 tons
Coal	500,000,000 tons	100,000,000 tons
Gold	12,000,000 ozs.	2,500,000 ozs.
Cement	85,000,000 bbl.	20,000,000 bbl.
Steel Plates—	5,000,000 tons	1,000,000 tons
Cotton Yarn—	29,000,000 bales	5,000,000 bales

Railways—48,000 kilo., in new lines.
Rails—3,360,000 tons
Locomotives—2,400
Steamships—3,000,000 tons

Dr. Wong estimated that in order to carry out a modest industrialization program such as outlined above the cost for the first five years would be about $10 billion of which at least half must be spent for buying machinery, equipment and industrial materials which the U. S. is well situated to supply.

Whether China will be able to carry out her industrialization plan quickly and effectively will depend on how readily she can secure adequate capital, domestic and foreign, and necessary technical assistance. Both of these again U. S. is in an excellent position to furnish.

We are in hopes that world peace will soon prevail under the auspices of the UNO and internal stability in China will establish itself under a united and democratic government. With the assistance of UNRRA and World Fund and World Bank and U. S. direct assistance, rehabilitation work in China will soon be completed and reconstruction work will shortly begin. Stability will insure security and productivity will yield reasonable return. It is hoped that under these favorable conditions not only U. S. Government credit will continue to assist China but private capital will find it desirable to seek investment there. With sufficient financial and technical aid from the U. S. China will be able to realize her dream for industrialization. Its realization will, no doubt, open up a new era of trade expansion and world prosperity for the coming 50 years which may prove to be the greatest factor in helping the U. S. to maintain full production and full employment and the highest standard of living in the world.

Business Failures in March

Business failures in March were lower in number but higher in amount of liabilities involved than in February. When compared with March a year ago business failures were high in both number and amount of liabilities involved. Business failures in March, according to Dunn & Broadstreet, Inc., totaled 86 and involved $4,421,000 liabilities as compared with 92 in February, involving $2,983,000 liabilities and 85 involving $3,880,000 in March a year ago.

All groups into which the report is divided, with the exception of the Manufacturing and Wholesale groups, had less failures in March than in February. When the amount of liabilities is considered only the Wholesale group had less liabilities involved in March than in February.

Manufacturing failures in March were up to 41 from 29 in February, and liabilities were up to $2,285,000 in March from $874,000 in February. Wholesale failures numbered 10 with liabilities of $529,000 as against 9 in February with liabilities of $888,000. Retail failures were down to 17 in March from 27 in February but liabilities were up to $269,000 in March from $258,000 in February. Construction insolvencies in March numbered 10 with liabilities of $436,000 compared with 14 in February with $215,000 liabilities. Commercial service failures in March were down to 8 from 13 in February but liabilities were up to $902,000 in March from $748,000 in February.

When the country is divided into Federal Reserve Districts it is found that the Boston, New York, Cleveland, Richmond and St. Louis Reserve Districts had fewer failures in March than in February. The Philadelphia and Atlanta Reserve Districts had the same number, while all the remaining districts had more insolvencies in March than in February. When the amount of liabilities involved is considered it is seen that the New York, Richmond, Chicago and Kansas City Reserve Districts had less liabilities involved in March than in February, while all of the remaining Districts had more.

Improved Mortgage Lending

(Continued from page 2085)

gage investments yield the best return to financial institutions and carry their expenses. Their bond and stock investments are on a lower yield. I read Sunday that over one-half of the Metropolitan Life's vast resources is invested in Government bonds yielding less than 2½%. Real estate should be proud of its ability to meet this problem, and should be accorded every consideration by financial institutions in return. I have suggested the 4¼% interest rate, in spite of a falling rate in the market, as a long-term solution to this joint problem and to avoid a return to the 5 and 6% rates of the past. Higher loans will be required to meet higher costs of apartment construction. For this reason I have suggested the 5% amortization for five years in place of the usual 2½ to 3% in order to bring loans to a stabilized value over the 10-year period, and during the period of the highest net from the building. During the third five-year period of the loan I would provide that capital improvements could be credited on amortization and preclude foreclosure if the building were being kept up.

Remove Federal Shackles

In addition to developing this form of service to improve the mortgage brokerage business, I believe the most important contribution that each mortgage office can make to a substantial increase in its mortgage business this year is to actively work to remove Federal shackles from the building business.

As building of all types increases, your mortgage business will increase. To this end I recommend:

1. Repeal of the new restrictive order No. 1 designed to siphon materials into veterans homes.
2. Elimination of rent control on all new construction.
3. Increase in ceiling prices now to encourage production of building materials.

The new order designed to limit construction to inexpensive houses for veterans represents further restrictions and will not solve the so-called veterans' housing problem. In the first place I feel that "Veterans' Housing" has become a political slogan. Its constant use may induce Congress to provide millions in subsidies but won't produce houses.

The veteran would be better served by uncurbed construction of all forms of housing and commercial buildings. Houses built to sell for $12,000 to $20,000 may attract families who will give up apartments or houses that a veteran can afford to live in. New apartment construction both for veterans and non-veterans would empty older and less expensive suites that veterans could afford. What we need is construction, not further restrictions. I have two sons who have been in the Navy for three years; neither needs a house to buy. On the other hand I know of hundreds of families who were not veterans, but who lost sons in the war and took an active part in war work and who need either apartments or houses in various price ranges. I know other veterans and former war workers who need stores for business more than they do new houses.

The restrictive order seriously injures steel, brick and other producers, and trades engaged in structural work. The order is unsound and should be revoked.

New York State has taken a wise precaution in eliminating control on rents of new housing. The Federal Government should follow suit. The risks in construction are enormous and the profit motive should be encouraged. The public will not be injured as competition will level off rents and prices as the volume of production increases.

I quote the following from Saturday's editorial in the New York "Times" on "Congress and Price Control":

"It is a mistake of the first order to put ceilings on new houses or on rents for new apartments. The effect of this can only be to discourage, reduce or prevent the construction of buildings now so desperately needed. Rent ceilings should, of course, be retained on existing houses and apartments. Congress would do well, however, to put the States and localities on notice that Federal rent control will definitely terminate on June 30, 1947. In this way the question of rent control could be taken out as soon as practicable from the Federal domain and placed in that of the States and localities, where it properly belongs."

The increase in ceiling prices of short materials will stimulate production and eliminate the necessity for orders like No. 1 and again as production increases prices will level off. Subsidies are a sorry substitute for permitting manufacturers a price that enables a company to stay in business profitably. The taxpayer provides the subsidy and its use sets up further Government bureaus and in the end costs the American public more than a legitimate price raise to a manufacturer. If a prefabricated house can't compete with present building methods on its merits, then there is no excuse for millions of American dollars being used to promote prefabrication. It would be better to toss a few hundred million dollars to present American builders as a bonus than to sink it in a new industry to kill off present builders, manufacturers and labor.

Encourage Real Estate Development

My feeling is that real estate and owners of improved property during the war made a valuable contribution to the war effort. Compare Government pegged rents with price rises in any other commodity and this fact is brought home. Now that the war is over, real estate and builders should be encouraged by the Government and not harassed, ham-strung and driven into the black market by further regulations.

My suggestion to brokers is to strive to get back to constitutional government and the system of free enterprise so we can take our coats off and produce.

N. J. Amends Rail Bond Investment Law

(Continued from page 2092)

some of inferior quality, would become legal and could be purchased only where prices are relatively high, and that many of the best bonds could not be purchased at the most favorable prices. This weakness has long been recognized, but is inherent in any law using fixed yardsticks. The lower the standard, the larger the number of bonds which would be legal in periods of prosperity. On the other hand, the higher the standard, the smaller the number of intrinsically high grade bonds which could be purchased in periods of temporarily poor earnings when prices are low.

The new law is based on an idea developed by George M. Grinnell of Dick & Merle-Smith, New York, who collaborated with the Investment Committee of the Savings Banks' Association of New Jersey. By substituting a variable standard — the earnings of the roads as a whole—for the old fixed standard, the law is greatly improved. For example, under the old law a substantial number of railroad bonds would now be legal as a result of high wartime earnings, which probably, under more normal conditions, would not qualify. Under the new law the list of eligible railroads is still restricted to a limited number of the stronger systems.

In order to test how the new law would have worked if it had been in effect in the past, the records of fifty of the important Class I railroads were analyzed for the period ending 1929 and for the period ending 1932. It was found that for the period ending 1929, 18 of the fifty railroads would have been eligible. None of these railroads has been forced into bankruptcy nor has any of them had to put through a voluntary plan of readjustment involving placing part of the road's fixed charges on a contingent basis. Of 32 roads which would not have qualified in 1929, 19 went into bankruptcy and three were forced to put into effect voluntary plans of readjustment in which bondholders were asked to put part of their interest on a contingent basis either temporarily or permanently. If the period ending 1932 is examined, it is found that under the old law only three of the fifty railroads would have met the requirements, whereas under the new law 16 would have qualified. Only one of the 16 has subsequently been forced into bankruptcy.

Below is a list of some of the high grade bonds which could have been purchased in 1933 by New Jersey savings banks if the new law had been in effect in that year. The low prices for the year 1933 are given, together with current prices. Obviously, large blocks of bonds could not have been purchased at the low sales, but these bonds could have been bought in substantial amounts fairly close to these low prices.

The theory of a flexible standard is applicable to the railroad industry because of the wide fluctuations in the net earnings of that industry. It would not be applicable to the public utility industry because of the relative stability of earnings. It may seem, in periods of prosperity, that requirements which can be met by less than 50% of the railroads, no matter how good the earnings of the industry, are too severe, but until greater stability is demonstrated than has been demonstrated in the past, it would seem highly advisable for savings banks to restrict their investment to the stronger railroads.

Unquestionably further refinements should be made in the new law, for there are certain strong railroads which, because of special factors, are not eligible. If a logical method can be developed for qualifying such railroads, without at the same time lowering the standard, it will be desirable to do so.

	Approx. Present Price	1933 Low Price
Atchison General 4s, 1995	140	82¾
Chicago, Burlington & Quincy General 4s, 1958	119	78
Northern Pacific Prior Lien 4s, 1996	127	51⅞
Pennsylvania General Mortgage 4½s, 1965	127	73⅛
Pennsylvania Consolidated Mortgage 4½s, 1960	130	94½
Texas & Pacific Consolidated Mortgage 5s, 2000	149	82
Central Pacific Refunding 4s, 1949	109	63½
Wheeling & Lake Erie Consolidated 4s, 1949	109	70
Alabama Great Southern First 4s, 1943	Ret'd at par	60

Municipal News and Notes

Two local housing authorities obtained 100% direct financing from private capital on low-rent public housing projects in Knoxville, Tenn., and Raleigh, N. C., when long-term bond issues totaling $5,271,000 were sold by competitive bid to Shields & Company and associates of New York City.

The proceeds of the sales will retire the Federal Government's entire capital investment in these projects, which were built in 1939 and 1940, and will refund all bonds outstanding in the hands of private investors. Low interest rates obtained on the new bonds will enable the two local authorities to reduce their total interest payments from $5,732,858 to $1,121,581, a saving of 80% over the life of the bonds.

The Knoxville Housing Authority sale consists of $3,439,000 of bonds to refund outstanding bonds on Western Heights, College Homes and Austin Homes, which include 764 dwelling units. The proceeds of the refunding sale will retire the Government's capital investment in these developments consisting of $3,202,000 of Series B bonds held by the Federal Public Housing Authority, and $237,000 of Series A bonds held by private investors. Net interest payments on the new bonds will average 1.2874%, and will reduce total interest to be paid over the life of the bonds from $3,742,877.63 to $733,555.00.

The issue sold by the Housing Authority of the City of Raleigh consists of $1,832,000 of bonds on Chavis Heights and Halifax Court, totalling 462 dwelling units. It will be used to retire the FPHA's capital investment of $1,704,000 and $128,000 of privately held bonds outstanding. New net interest will average 1.282%, and reduce total interest payments from $1,989,980.83 to $388,026.25, thus saving the Raleigh authority $1,601,854.58.

Admission in these projects is limited to low-income families who are unable to pay the full cost of decent, privately operated housing. The Federal Government, through the FPHA provides an annual contribution to make up the difference between the actual cost of providing the housing and low rents the families can pay. This contribution also helps the local authorities to assure investors that the bond obligations will be met.

The new issues will mature over a period of 30 years, 22 years less than the bonds being refunded. Thus the refunding eliminates the need for 22 annual contributions by the Federal Government, which at maximum would amount to $135,431.25 per year for the Knoxville developments, and $72,186.19 per year for those in Raleigh.

Public Utility Securities

(Continued from page 2076)

this unit exchange method, suggesting that 25 shares of common stock be considered equivalent to one share of preferred, with assets distributed on this basis. Voluntary exchanges were proposed as an alternative.

Investment Associates, Inc., which owns 32,000 shares of common, proposed a $75,000,000 bank loan to pay off the preferred stock. Three of the northern companies (not including Consumers Power) would be sold, with common stockholders obtaining subscription rights. Later Consumers Power would also be sold to reduce the bank loan. A fourth plan was proposed by Albert Shassol, a stockholders, he suggested recapitalizing Ohio Edison and Consumers Power and offering these or other securities to preferred stockholders.

The management plan is apparently designed largely to avoid heavy bankers' commissions in the sale of sufficient stock to pay off the preferred stock. It avoids the difficulty of evaluating portfolio items by obtaining real market values for the issues to be distributed. The plan would seem to be feasible although the idea of a bank loan (to be used by Standard Gas) to pay off the preferred stock immediately has some appeal, because of the low interest cost as compared with the 6% dividend rate, and the speed with which it can be consummated if all parties should agree not to file delaying court appeals. The sale of "new money" stocks could then be deferred until normal earning power is somewhat better established than in the present interim earnings period. However, it should be recognized that the calendar year 1946 — when tax savings will be fully realized, without heavily offsetting cost increases or rate cuts which may follow later—may prove a very favorable time to liquidate holding company portfolios.

Controls Cripple Production

(Continued from page 2073)

profits, and stimulating inflationary trends.

On one hand we have CPA, and on the other OPA, and although their efforts should be synchronized, both agencies are working autonomously. The left hand doesn't know what the right is doing, and industry holds the bag.

And over these, we have the "Czar," Mr. Chester Bowles, the Director of Economic Stabilization. He doesn't know what either hand is doing, or why, but he manages to keep very busy devising new schemes for raising wages, without of course, having any effect whatever on prices.

He doesn't see anything inflationary about increasing the Government's payrolls by a billion dollars a year, but it would be a mortal crime to increase the price of broadcloth by two cents per yard, even though that increase might mean having broadcloth.

Promoting Inflation

Our Government is doing a grand job of promoting inflation. Slowly but surely we are working our way into an uneconomic mess, and soon we will find more and more reasons for retaining present controls, and for devising new ones that will continue indefinitely.

OPA will be doing business at the same old stand for another 12 months. It will find ways to circumvent the new amendments and to continue its vicious practices. It will still be in position to gaze into a 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.

OPA will still set the Industry Standards. It will determine which of your costs are allowable and which are not. If it determines a manufacturer's "hardship" is temporary, the matter will be closed. If it grants any price concession, it will as a consideration, reserve the right to regulate production, and to inspect the books each 90 days, and to order refunds and price reductions.

The American business man will continue to be treated as though he was 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.

Effect on Retail Business

We in the retail business are most unhappy. We are completely fed up with wartime substitutes. We are tired of apologizing for substandard goods. And our customers, although they have been extremely tolerant, are finding it increasingly difficult to understand why they should continue to tolerate extreme shortages of essentials or inferior overpriced substitutes.

Of course we know that OPA's current outmoded, unrealistic, theoretical and unfair approaches to pricing problems are a major impediment to production.

Although the war has been over for eight months, the shortage of consumer essentials is now more acute than at any time during the war.

We must insist that Congress restrict the activities of OPA and require the immediate removal of all inflationary controls, particularly those that retard production, force quality deterioration, force items out of production, encourage subterfuge, hamper reconversion, raise the cost of living, and all controls that prevent us from satisfying our customers' needs.

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 30th must be definitely limited.

But Mr. Bowles "assumes" that price controls have been highly effective and he plans to continue them without change.

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, radios without condensers, lamps without sockets, or furniture without hardware, Mr. Bowles speaks of "goods pouring in an ever-increasing torrent from our factories,"—"the rapid upward swing of Industrial Production."

He is "encouraged by the speed with which OPA has handled pricing problems." (In passing, I might say that no one in industry feels encouraged.) 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 Federal Reserve figures of a limited cross-section of industry, 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 cotton dresses.

Effect on Retailers' Profits

We haven't charged that OPA has handicapped sales or profits—we know that they have seriously restricted the production of consumer essentials.

In fact, if retailers were only interested in profits, we would probably, as a body, favor keeping OPA forever. Profits increase by leaps and bounds whenever consumers are forced into abnormally high price ranges.

As shortages become more and more acute, and as we sink deeper into a hopeless abysmal mess, our new Administrator, Mr. Porter announces, and I quote: "Established manufacturers are really 'going to town' under the Reconversion Formula. We are going to have goods flowing out of our ears within a very, very short time." He is rapidly picking up Mr. Bowles' pet phrases. Bowles told us last July that we'd have radios flowing out of our ears long before Christmas.

Frankly, a good many of us, quite familiar with the disastrous effects of arbitrary and unworkable regulations, are completely fed up with OPA's high pressure misleading propaganda machine, and with their phoney comparisons and cockeyed predictions.

Controls Doing More Harm Than Good

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.

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.

Every housewife knows whether or not the "line" has been held. Consumers spent 84% more money in 1945 than in 1940 for approximately the same amount of goods.

Since March of 1945, including quality deterioration, the price of men's shirts has increased 93%; boys' shirts, 90%; women's cotton dresses, 147%; and girls' cotton dresses, 111%. These figures reflect quite accurately the price rise that we have experienced while Mr. Bowles was holding the headlines.

OPA stubbornly adheres to the position that anyone who does not agree 100% with their arbitrary narrow viewpoint is a greedy, irresponsible lobbyist 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 extortionate about a FAIR price. OPA implies in its letters to Congress and in its 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 volume, 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 its "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.

Lawn mowers are a 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.

New Problems for Retailers

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.

Recently, 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 socks for 60 cents, large size 32-cent sockets for $1.25 each.

Or I might cite the case of a Georgia hosiery mill which clearly indicates the problem now facing practically all industry.

This manufacturer, a large one, was engaged entirely in war production, from early 1942 to August 1945, when Army contracts were cut back.

The manufacturer, who had had no deals whatever with OPA throughout the wartime period, read the various pricing regulations and believed every word of them. He assumed that they meant that he could file an application and receive permission to charge a fair price for his products. I know he sounds naive, but keep in mind, he had not dealt previously with OPA.

He did exactly what we would like all industry to do. He reconverted immediately and turned all his machines to producing the identical number that he manufactured prewar: 240 needle, mercerized, split-foot hose, an excellent quality utility hose that had not been available to any merchant for three years. In the course of 60 days, he had produced approximately 20,000 dozens, and having heard nothing from OPA, decided to visit their regional office. There he found, much to his surprise, that there was no possible way of obtaining price relief, that he would have to sell his hose at the March 1942 price of $2.27½ per dozen. The fact that his current production cost him $2.47 made no difference. OPA was not even mildly interested in his current costs, or in his problem. Was he in the red? No. If not he deserved no consideration. Because he had operated at a profit, he now could well afford to sacrifice some of it by producing at a loss.

He solicited our aid and we contacted OPA in New York, offering to pay the higher costs and sell at prewar prices to bail out a manufacturer that had served us faithfully and satisfactorily for 20 odd years, but that couldn't possibly be permitted. It would be a treble-damage violation. His only out—straight from OPA—was to produce a new number and apply for a higher price.

Then we called Washington and got the same answer, from the head of OPA's pricing section on hosiery. "Mix a little nylon in the heels and toes. Call it a new number." And the best suggestion we could get from the Office of the Deputy Administrator for Price was to file an affidavit to the effect that the character of this man's business had changed. Perhaps then they could give him special consideration.

The manufacturer then visited OPA in Washington, and because his case had received rather wide publicity which was not favorable to OPA, the head of OPA's hosiery section had the gall to inform him that there would be a Third World War before he would receive any price consideration. It was not until all these facts were presented to a Committee of Congress 30 days ago that OPA decided to grant price relief, and I am informed that a pricing order is now being prepared. Would you call this fair and equitable treatment?

Further Citations

We might discuss why there is no broadcloth, or 80 square cotton print, or why our sateen and low-priced rayons are exported

Or why 95% of current yardage production is in sub-standard wartime substitute or overfinished cloths.

Or why 90% of our lumber is sold in the black market.

Or why it is advantageous to load West Coast lumber in British bottoms.

Or why the largest manufacturer of building materials in the world has had to discontinue production of many essential items.

Or why our company paid Mexicans $197,000 over the ceiling price for one order of piece goods for outsized dresses.

Or why plain wooden chopping bowls are not available.

Or why there are no shirts—

Or why we buy Argentine socks, gloves and bags—

Or why the underwear situation is such an unholy mess—

Or why 90% of our meat is in the black market—

Or why the low priced electric iron production during the past 12 months has been exactly zero—

Or why we have purchased 250,000 vacuum cleaners from Britain.

Or why babies have to wear excessively heavyweight 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.

Bungling and Delay

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.

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.

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 making a half-hearted, insincere pretense of granting incentives—a complete farce.

And while needed goods pile up in warehouses, because OPA's MAP plan makes it illegal to ship them, OPA closes its eyes and becomes very interested in taking controls off imported dehydrated banana flakes, manholes and manhole covers, canned Irish potatoes, ice cream sandwich waffles, and imported and domestic canned eels!

The Decontrol Program

The Decontrol Program is still in charge of the ex-real estate attorney who took the controls off all baseball equipment except balls, bats, mitts, apparel and shoes. But currently he has liberalized his viewpoint. Now instead of exempting "Furniture made entirely of glass," he has changed it to "Furniture made wholly or predominantly of glass or mirrors," and he has thrown in horse blankets, racing cars, and obsolete radio parts and tubes, but this latter only if you can establish that you haven't used them in any sets since 1940. And Mr. Porter predicts "substantial increases in shipments of insignificant items."

Let's not be "taken in" by the headlines. This is the time of year for OPA to toss out a little bait in an attempt to get another year's lease on life. Their excellent public relations staff will check Congressional reaction daily and make whatever minor revisions and amendments are necessary to get their extension.

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 advisers with inadequate knowledge of the problem.

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, of 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."

More Production is Greatest Need

Our greatest need today, as then, is more production and less controls. We cannot possibly have a free economy without free prices.

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.

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 anything like its present form.

Perhaps 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 prewar 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 M.A.P. 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.

OPA will call these "crippling amendments." Actually they will prevent OPA from "crippling" production.

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.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

A few more days of dull draggy markets and the makings of rally would be started. Strength here is not bullish.

In last week's column I wrote, "I can see further strength . . . . I can even visualize the industrials making a new high before this gets into print. But the more strength we see from here on, the more dangerous I consider the market." In the latter part of last week (even before this column reached you) stocks kept up their pace, and averages did about everything but make a new high. In fact the industrials did manage to get to 208.54, so that everybody could point to its strength. But even while this was going on, it was noticeable (if anybody cared to notice) that the rails were still the stepchildren of the market.

* * *

It's not improbable that the industrials can start and go way up without the rails taking any active part in a real rally. But if that happens it will be such a rarity that I'm willing to go out on a limb. Speaking about rails, there was an interesting piece of news this week—rails filed a petition asking for higher freight rates. The first reaction of the group to the news was a great big yawn. If the rails are to go up I doubt that an application for a boost in rates will be the motivating spark. For between an application for a raise and the granting there is loads of room. In any event the rails are in a little trouble if the present Congressional hearings on territorial freight rates as approved by the ICC lead to anything. Again, it is pointed out, there is lots of room between talk and action. So the whole thing may end where it started—on the front pages of newspapers.

* * *

Front pages of newspapers, however, do not dominate price trends. What you read in the subway on the way home is stuff that the market has known about long before it hit the public prints. I know all this sounds boring. I'm just as bored writing it as you must be reading it. The fact remains that news as we know it, whether it comes via hush-hush tip from the senior partner, the well-informed customer's man, or the broad tape, is just so much grist for the mill. It is not the oil which greases the market machinery.

* * *

I haven't mentioned inflation for some time. It isn't that I'm unaware of it; I just don't know what to say about it here. That some kind of inflation was coming the market foresaw a long time ago. It's what it went up on. Whether it can continue to go up on it is something else again. It seems to me that there must be some additional momentum generated from behind the scenes to give the market sufficient ammunition. You can beat a horse just so long. After a while it will drop dead. Beating a dead horse will get you nothing but a sore arm.

* * *

That brings me to the controversy of price control, which everybody I know seems to be in favor of removing. "Just leave business alone; have a little inflation. It will be good for business. People would get this inflation over and done with and supply and demand would get back into the saddle and everybody would be happy." I can take that argument and knock it into a cocked hat without even trying. A little inflation indeed! It's like being a little pregnant. Everybody wants the price of his goods or his services raised, but still wants the things he has to buy daily to remain fixed.

* * *

To get back to the market. In a previous column I wrote that strength at this juncture was ominous and that I'd prefer some dullness; even some minor weakness. In the past few days strength has disappeared and both dullness and some weakness has taken its place. A few more days of this and the makings of a rally could occur.

* * *

Whether or not you see it is something else. I still advise against new buying. But I do advise retention of the stocks you hold half positions in. Stops remain the same. Here they are:

Air Reduction at 52; stop 55, now about 58. American Car & Foundry at 60, now about 69; stop 64. American Steel Founders at 42, now about 45; stop 43. Bethlehem at 99, now about 106; stop 99. Electric Auto-Lite at 71, now 74; stop 69. Chrysler at 120, now about 133; stop 128. Superheater at 30, now 31; stop 29. U. S. Rubber at 65½, now 75; stop 69. U. S. Steel at 82; stop 79.

* * *

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.]

Pevear Becomes V.-P. Of Blair & Co., Inc.

Blair & Co., Inc., 44 Wall Street, New York City, announce the election of William W. Pevear as a vice president of the corporation. He will be associated with its Government bond department. Mr. Pevear was formerly Assistant Treasurer of the Guaranty Trust Co. of New York and in the past was with Baker, Weeks & Harden.

George J. Flach Opens Own Investment Firm

SAN FRANCISCO, CALIF.—George J. Flach, member of the San Francisco Mining Exchange, is engaging in the securities business for himself from offices at 155 Montgomery Street. He was formerly San Francisco manager for R. L. Colburn Co. of Los Angeles and prior thereto did business as an individual dealer.

Wm. Weston Promoted

William Weston, associated for the past 17 years with Central National Corp., 22 East Fortieth Street, New York City, investment bankers, and for the last seven years Assistant Treasurer of the corporation, has been appointed Secretary-Treasurer.

Some Trends in Art of Estate Planning

(Continued from page 2075)

method of comparison will, I think, leave us with some sense of satisfaction with the progress of our art but it may also indicate that there are conquests still to be made.

"Boiler Plate" Wills

First: There were in the boiler plate days almost never any discretionary rights to use, apply or expend principal for any beneficiary. The hard-boiled old-fashioned rule was that the beneficiaries could live on the income, by gosh, and be darned to 'em. That, of course, was before the days of the 59-cent dollar. It was before the post World War I inflationary experiences of Europe. Trust income, in those days, was literally bread and butter income. Aspects of individual education, let alone individual idiosyncracies, were almost never taken into consideration. You all know how greatly this method of approach has changed. The modern enlightened broadening of this cramped restriction upon the use of principal has been all for the good both of individual beneficiaries and of society. We have arrived at a time, thank goodness, when it is generally recognized that anybody who draws a will or trust which leaves the principal frozen in *rigor mortis* for a period of practical perpetuity has demonstrated himself to be a very poor draftsman.

Second: The boiler plate approach customarily divided the entire trust principal into inflexibly fixed shares. This was particularly common with relation to the period of time after the grantor's or testator's surviving wife had been foolish enough to remarry or unfortunate enough to die. By this unintelligent arrangement each child would receive one equal share—it mattered not that little Mary would marry a rich man while her sister Helen would be a social service worker all her life, poor and unmarried, or brother Johnny have infantile paralysis while brother Bill would grow up to be President of the General Motors Corporation. Each child would get an equal share, by golly, both of income and principal, and each one would get the principal outright upon attainment of majority whether sick, well, bright, or dumb, part way through college or just beginning college, off at war or working as a clerk in a brokerage house. This rigorous technique is no longer the vogue even if we must admit that too much of it remains. There are plenty of imaginative men in the world today who can and do bring themselves to making a distinction between a boy's share and a girl's share: who can and do provide that if on the death of the mother the children or some of them are still minors the family fund will be held together undivided until the kids are at least grown up and "on their own"; who can and do provide that the shares shall be distributed in installments at varying ages; who can and do provide that the trustees shall have a power to decline to distribute principal to a daughter who has made an unfortunate marriage or is ill or to a son who has wasted whatever has already been paid to him. In these respects, also, therefore, much improvement has been made in the art—and tax developments which tend to restrict this elasticity must be viewed with some alarm.

Third: In the boiler plate document the share of a deceased son of the grantor or testator customarily passed inflexibly to his surviving issue, however young, however old, without any regard whatever for the position or problems of their surviving mother. Time and again this produced the distressing family catastrophe of vesting a substantial sum of property outright in minor children, or in their guardians, while the faithful partner of the deceased son of the testator was left without a *sou marquee* just at the time when she needed it most. Here again we have made progress. Even in a day when national tax policy has placed a number of serious obstacles in the way of the use of the power of appointment alert draftsmen do provide the children of the testator with the limited powers of appointment which the statute and regulation allow so that the remainder of the child's share can, if the child so wills, be devoted, to some degree at least, to the care of the child's surviving spouse. The old idea, in other words, that the testator or grantor must decide everything and leave nothing for future decision has, luckily, begun to dissolve. Yet I think we must all agree that the use of the limited power of appointment is still much too rare.

Fourth: The trustees, under the old-fashioned boiler plate instrument, were told that they should invest the trust according to their discretion, without enumeraion of any broad management powers, or, to make matters worse, they were exhorted to manage the estate and invest it in "good, safe securities" or in some other good sounding but dangerous language. A reference to "good, safe securities" is, of course, an invitation to disaster and confusion, for the simple reason that there is no such thing, there never has been and there never can be a "good, safe security."[1] A mere reference to discretionary power is equally unhappy. It has turned out to be the law that a trustee who is empowered and instructed to manage an estate in accordance with his sound discretion enjoys no power which he does not in the absence of the language possess.[2] I need hardly point out that in the drafting of modern instruments this important subject is more clearly and extensively treated. I might add, also, with some sense of personal pride at having assisted in the process, that the law of the United States has greatly broadened its fundamental position upon the scope of the investment powers permitted to trustees.[3]

Fifth: The boiler plate instrument almost never provided precise ways and means either for resignation of the trustee or for appointment of successor trustees. It is a most peculiar thing that until recently the whole subject of choice of the trustee or trustees who are to have charge of the family fund—a matter which is certainly *more* important than any other single thing relating to the estate plan—has been a subject of comparative neglect or at best of very hasty decision. And the possibility of failing trusteeship, whether arising by way of death, resignation or otherwise, has been too often elided, without the specific safeguards which contemplation of such a disaster ought properly to require. Too few instruments provide for a satisfactory manner of making a choice of a successor trustee. An agreed list of successor trustees is seldom provided. The problem is not easy but it should not be allowed to go by default. Certainly it won't do to have the life tenant in a position to appoint the master not only of her own fate but of that of the remaindermen.

1 As Mr. Justice Putnam said in the celebrated case of Harvard College v. Amory (1830), 9 Pick 446. "Do what you will, the capital is at hazard."

2 See Davis, Appellant (1903), 183 Mass. 499, and see the Massachusetts Prudent Man in Trust Investments, Boston Un. Law Review, Vol. XXV, Nov., 1945. The effect of this language may be broader in so-called Legal List States. See Scott on Trusts, s. 227.

3 The Model Prudent Man Trust Investment Statute has been enacted within the past three years by Delaware, Minnesota, California, Texas, Illinois and Maine. A number of other states are now considering the same reform.

Certainly it is stupid to allow some court to intervene with what may be a most unfortunate or undesirable appointment. Probably it is wise to allow the board of trustees to be self-perpetuating, perhaps with a veto power residing in the beneficiaries. But if the power to appoint successors is to be lodged in the trustees they should certainly be given some mechanical assistance by the testator or grantor or donor, either by way of a list to be left in the hands of the trustees or by way at least of specifications which would control the appointment.

Corporate vs. Individual Trustees

Sixth: The old-fashioned boiler plate instrument never dreamed of dividing duties among a board of trustees, each according to his or its special qualifications. Nowadays we know that it is intelligent to divide trust duties. We have come to learn that the corporate fiduciary does the routine administrative work better than the individual trustee can hope to do it. The complex literature of the investment world and the terrific requirements involved in Government reports of all sorts have placed an intolerable burden upon the shoulders of the individual trustee, however wise and active and intelligent he may be. But it doesn't follow that the bank is best prepared, acting alone, to grapple with what may roughly be called the family "headaches." A junior officer in a bank may be skilled in human relations and may have all the good will in the world but he may lack, indeed he must be expected to lack, the intimate knowledge of the family circle and the working acquaintance with strong points and weak points of the individual beneficiaries which an old family friend or family adviser might fairly be expected to possess. The question as to whether Johnny is to have violin lessons, or Mary is to have a trip to Europe, or just what amount of principal is to be given to the widow, or just what amount of property is to be devoted to straightening Susie's teeth, are questions which might well be left, both for the good of the corporate fiduciary and for the good of the family, in the hands of individual co-trustees. Conversely, the individuals, depending on who they are, may be worse than useless in attempting to invest the trust funds. One answer to this difficult problem may well be that the instrument be drawn so that the duties are divided among the trustees, with suitable provisions fixing responsibility only in accordance with the fixation of responsibility.

Trend Toward Elasticity

We see, therefore, that some very significant broad trends have assorted themselves in the art of designing and drafting estate planning instruments. These trends are all in the direction of elasticity and liberality. And the general drift accords with the broad sweep of modern human philosophy. In the Victorian age, when the ideas of Sir Isaac Newton shaped a good deal of the thinking of mankind, there were a good many absolutes which all of us were prone to accept as both final and inflexible. Newton observed, and nobody denied, that if an apple was detached from the bough of the apple tree it forthwith fell to the ground. It now transpires that it could not even be certain that the apple was in fact falling. From some points of view it might actually be rising. Our modern prophet Einstein, appears to have demonstrated that nothing is absolute. Everything is relative. If someone were to ask you whether Hannibal is today crossing the Alps you would probably say that he isn't. But if you were standing on a remote star somewhere and looking at the Alps you might actually see Hannibal's elephants making their way toward Rome. What you see you are inclined to believe. How under such circumstances does anybody know whether Hannibal is, or isn't, crossing the Alps just at this particular time? I suppose nobody does know. I suppose everything *does* depend on where you stand when you make your observation. Certain it is that this sort of thinking has produced not only the atomic bomb but has also produced the modern liberation from frozen concepts of every sort, including the estate planning concept which we are discussing today.

Revocable Trusts

One of the estate planning devices to which I have made reference may merit, I hope, a few additional remarks. I refer to the revocable trust. It is an arrangement to which we should give close study. Imagine, for example, the situation of a man who has the controlling interest in a small proprietary corporate business, and who has, besides, some insurance, a few securities, a wife, one or two children and the ordinary personal and real properties which go along with an average American family establishment. What would such a man obtain by the use, in his estate planning of, an old-fashioned will? He would obtain publicity upon his death as to all aspects of his business; expensive delays and red tape in the probate court, a wastage and general all-round lack of efficiency which very often is fatal to the preservation of his business, or to the protection of his family, or both. What does he obtain, contrariwise if he places his corporate shares in the hands of a trustee of a carefully drawn revocable trust? He obtains economy, speed and efficiency. The property in the trust never goes through the probate court. He obtains privacy, for the same reason. He obtains experience with the team who are going to manage his affairs after his death. He obtains personal protection if he becomes sick or incapacitated. There is no need for a guardian or conservator. There is every assurance, from the moment when he signs the revocable trust, and prepares a simple will which pours into the revocable trust everything that is in his estate at the time of his death, that the whole vehicle is created, ready to roll. I have a strong conviction that the revocable trust, which was brand new in its commercial aspects when most of us were beginning our careers and which has developed into its full flower only during the past 10 or 15 years, is one of the most useful, perhaps *the* most useful, of the estate planning tools. Because of the fact that the revocable trust does not save taxes the estate planners who are greedy for tax savings have tended to overlook it. But it can be used in many forms, with or without insurance, and it is a device which is exceedingly useful and valuable in some jurisdictions. It may even have the advantage, depending upon local law, of protecting the property placed in the revocable trust from the claims of future creditors of the transferor.[4] It is particularly useful, of course, in the case of elderly people, or in the case of a person departing from the country on war or on business, because it has the virtue of standing on its own feet and is not subject, as is the ordinary power of attorney, to automatic revocation by death.

Tax Aspects

I now turn to the change which I have observed over the past few years in the attitude of lawyers, trustmen and insurance men toward the subject of taxes. I can remember a day, as will many of you, when it was assumed that the trust was an endlessly useful device for depriving the Government of its anticipated revenue or, to put it in a more kindly manner, as a device of great worth for avoidance of taxes by men of substantial means. That idea was natural enough. The trust in its original form in England demonstrated a remarkable ability to deprive the King of revenue and to relieve the English property holder of feudal burden of all kinds. Parliament's attempt to abolish the trust forever by declaring in the Statute of Uses that all uses should be raised or executed into legal estates miscarried notably and the modern trust emerged triumphant. But public opinion in the England of that period, aided and abetted by the church, was clearly opposed to the feudal system. The result was that the judges allowed certain types of use to escape the condemnation of the statute. The escaping uses were, so to speak, the parents of the modern trust. Lawyers may be pardoned, therefore, for assuming that the trust could once again "beat the rap," to use the language of the underworld. That idea was fortified in their minds, moreover, by the fact that the lawyer-like approach to the trust situation seemed to dictate quite soundly that many types of the trust were beyond the purview of estate taxation. Take, for example, the revocable trust. When a man creates a revocable trust he actually transfers in law the title to the trust corpus and the legal right to the trust income. It is no longer his. He may have a right to recall it but that right doesn't make it his unless he exercises the right. Someone else is actually getting the income; someone else is entitled to the principal. You would think, if you were trained in the law, that the income tax must be levied not on the person who has the right to recapture it but upon the person who actually receives it. You would think, also, that if the principal has in fact left the estate of the donor then his estate ought not to be taxed on it when he dies. You would suppose that a gift tax might be paid, subject perhaps to refund of some sort if the right to revoke is exercised. But of course we are now all well aware that the tax authorities (and, incidentally, the man on the street) have concluded that if a right of alteration, amendment or revocation is reserved then the whole business is to be disregarded from the standpoint of taxes and is to be considered as though no trust had been created. I can remember the day when it was suggested in fiduciary advertising and at other places that even the revocable trust could be used to save taxes. I can remember the day also, and that wasn't very long ago, when everybody supposed, if a man created an *irrevocable* trust, that there just couldn't be any further taxes to the grantor after the trust had actually been brought into being and the gift tax paid. But once again the taxing authorities have been very realistic about this. It was soon decided that the income from an irrevocable trust for the payment of premiums on insurance on the life of the grantor was still taxable to the grantor on the theory that he had received the benefit from the income in the satisfaction which came to him from providing for his family.[5] It was next decided that if a trust was created for the purpose of discharging an obligation of the grantor or for the purpose of providing support to persons whom he was obliged at law to support the income would still be taxable to him.[6] Next it was

4 See "The Revocable Trust; Its Manifold Uses in Times of War and Peace." The Trust Bulletin, Vol. XXII No. 7, March, 1943.

5 Burnet v. Wells, 289 U. S. 670. (289 U. S. 670.)

6 Douglas v. Willcutts, 296 U. S. 1; Commissioner v. Schweetzer, 296 U. S. 551.

decided, speaking broadly, that if there was any right of reverter reserved to the grantor the trust would at once asume a testamentary significance—a doctrine with which I am in violent disagreement but which is now a definite part of the tax structure.[7] Again it was decided that if a trust was created for family purposes and for a short term and if the grantor reserves certain powers of management or benefits in the trust there might be imposed both income and estate taxation.[8] Other things have developed in the tax world that most lawyers approaching the matter from the property law viewpoint would have said never could have happened. Taxation as under Helvering vs. Horst[9] and Helvering vs. Eubank,[10] of assigned future income, taxation as in the Lehman cases[11] of reciprocal trusts and taxation of family partnership situations have kept estate planners in a "dither" most of the time. We have been learning, in other words, that far from being sympathetic toward the trust as a device for the avoidance of taxes, our modern courts, and modern public opinion, have directed vigorous energies toward minimizing any latent power possessed by the trust to circumvent the national need with relation to the inevitable tax burden. It seems, on occasion, and it is true on occasion, that the courts have overdone the matter of being watch dogs of the treasury. One such notable occasion happened, for example, when after the famous Stuart[12] decision the Congress intervened and in substance reproved the court for going too fast. But it is generally recognized as foolish today, and it was always foolish even though it was not so generally recognized, to regard or to use the trust or any other estate planning device as primarily a tool for reduction of the tax burden. It now appears, indeed, that Oliver Wendell Holmes' classic distinction between reprehensible tax evasion and legitimate tax avoidance has done more harm than good. The modern fact is that any prolonged system of taxation avoidance, however legitimate, will eventually be checked by the will of the people. The simple explanation is that government can't get along without money, especially with expensive wars to be fought, and from the standpoint of the national cash register avoidance is exactly as bad as evasion. The special goal of estate planning therefore has come to be recognized not as primarily devoted to the lessening of the burden of tates but as essentially pointed toward a provision of the dollars and cents with which taxes must be paid.

Use of Life Insurance in Estate Planning

I ought not to close my remarks to men engaged in the study of life insurance without voicing a few suggestions about the use of insurance in estate planning and about the taxation of life insurance. I believe that the companies could do somewhat more to stimulate the use of life insurance in estate planning and I believe that life insurance deserves a better "break" taxwise than it is getting. Life insurance must be regarded for most people of average means as the one essential tool in estate planning. It provides, for our coming young men, the only possible safeguard against sudden disaster. In so doing it ought to be regarded as the best friend our Government could have especially in hard times. It is sound government policy that dependent women and minor children should be adequately cared for by private means. It is also sound government policy that the coming young men of every generation should have the manlike feeling that they, and they alone, without the assistance of Government funds, have attended to their own individual problems. Life insurance also provides, as I need hardly tell you, the only psychologically sound method of continued saving. The fault with all other types of saving, even including the tucking away of money in the savings bank, is that they are subject to the constant hazard of easy withdrawal. It is a real wrench to an upright and serious man when life insurance is abandoned or its cash values taken for ordinary expenses. My own experience as a young lawyer and my observation of the experience of my clients has been that the best way, by all odds, and in many cases the only way, to provide a modest estate without gambling and without taking an inordinate time away from one's profession or job in life is by the regular, steady and intelligent purchase of insurance. There is reason, therefore, to ask for a kindly and considerate viewpoint upon insurance from the Government. But before commenting on tax aspects I should like to say a few words about the attitude of the companies. The life insurance companies have not been wholly intelligent, let alone generous, in their attitude toward the use of the insurance trust. Their viewpoint even now must reluctantly be described as cramped. They favor the contract options; they dislike to deal with trusts. They dislike to allow trustees to have access to the options. They have this attitude partly because of certain legal apprehensions, partly because of economic threats to their underwriting calculations which might exist if a great body of trustees were to move at once in a given direction. I think it may fairly be said, however, that home office practices are becoming more enlightened and more elastic. It is getting to be understood that an intelligent thing to do in certain types of cases is to leave part of the grantor's life insurance on interest or annuity options, taking pains to select the best and usually the oldest policies, and place the rest of the insurance in a trust where it can be marshaled as a family fund ready for use as to income or principal or both according to current emergency. Indeed, there are a good many companies which will work out special arrangements today for the pouring into a trust of any exhausted or excess amounts which remain under the option settlements. And there are a few companies which now undertake to afford the trustees under a family trust as much right, or nearly as much right, under the option provisions, as are afforded to the assured himself or to his beneficiaries. So that we have a right to be optimistic as to the future use of insurance in intelligent estate planning. Certain things are needed, to be sure, one of them a greater and more imaginative education upon the part of the underwriters. But here we see signs of happy development. The proposed school sessions to be inaugurated this year at Connecticut College by the C. L. U. is one cheering example. We need also a more enlightened viewpoint on the part of home counsel and executives.

Need for Tax Exemption for Insurance Premiums

But chiefly we need a more enlightened national policy on the part of taxing authorities. At a later time and in a different place I expect to try to call public attention to what seems to me to be a distinctly unenlightened and even discriminatory attitude of our Federal tax laws toward life insurance. The repeal and removal from our tax structure of the special life insurance exemption has called to the attention of every estate planner the fact that life insurance is not only deprived of a preferred status under the law as it stands but is actually placed in a position which is more difficult than that occupied by other personal property. After a series of developments, which would have been comical if they had not been so tragic, with relation to the taxability of the proceeds of insurance upon the life of a decedent it is now the law that a man can't even give away a life insurance policy, even though he pays a gift tax upon the transaction, with assurance that the property given away will not be taxable again to his estate. You can't do for life insurance, in other words, what you could do for any other contract right—you can't do it even though you give it away completely *bona fide* and completely settle with the Government for the privilege of making the gift. What is more, the impact of the Hallock rule in the field of insurance is nothing short of devastating, and it should be straightened out forthwith. Indeed, I believe that Federal tax laws should give a definite premium to the acquisiton of proper amounts of insurance. The New Deal tax philosophy undertook, according to its proponents, to give the ordinary man a chance and to make the rich man pay his full proportionate share of the cost of government. It has succeeded, so it seems to me, in achieving in this respect the exact opposite of its goal. The person who inherited a very considerable amount of property can keep it and can realize profits upon it and use those profits for the payment of current expenses at a relatively low bracket of taxation but the so-called average man who is attempting to build out of his own efforts any kind of a modest family protection fund is under a constant handicap because of the way income surtaxes operate. What would be wrong with giving a man who can build only a very modest estate out of his earnings a reasonable deduction for life insurance premiums paid, if those life insurance premiums are in fact devoted to the protection of his surviving family? It seems to me that there would not only be nothing wrong with such an exemption but that it would conform with a sound and enlightened policy. What would be wrong with the granting of some reasonable exemption to life insurance proceeds which are in fact actually used to pay estate taxes? Is it not true that Uncle Sam has his burden greatly reduced by receiving cash outright in his estate tax collections rather than having to liquidate bricks and mortar at a fraction of their value to get his due. It seems to me that a sound national policy would be to encourage the young men of each generation to build a reasonable protective fund for their own dependents and to give them a premium for arranging their affairs so that Uncle Sam's collection burdens would be lightened. It conceivably could be sound national policy to take away from a rich man at his death all of his accumulated earnings except a comparatively modest amount. But at least the coming generation and the young men who must provide the national motive power for that generation should have full opportunity and incentive to save for themselves that same permitted modest amount. I am sorry to say that I can see very little sign of enlightened trend in this generally disappointing area of estate planning. I fear that as has so often happened in human history the evils denounced by Erwin Griswold with relation to the use by wealthy men of life insurance as a tax avoidance mechanism have produced a cure which is altogether too drastic.[13] There are a good many men throughout the United States who are disturbed about this phase of the work and I hope there may be others who have also decided to try to do something about it. I should like to see all persons having to do with the art of estate planning concentrate their thinking upon this subject and force upon the legislative bodies of the country, including Congress, a consideration of the subject. After all, Congressmen are human beings. They also have families. They also have limited incomes. They also are worried about what will happen to their precious broods if anything happens to them. They should listen, and in my opinion they *will* listen with attentive ears, to any proposed adjustment which is based upon sound thinking and which is *just* if not generous to the average man of the United States.

Recent Procedure

I now come to my final observation as to the trend of estate planning within the past several years. There has been, it seems to me, a continuing evidence of fine cooperative team work. This is manifested in a variety of forms. The Graduate School of Banking and especially the Trust Division of the American Bankers Association has set an example for all the world to observe in its extensive and qualitative system of adult education. One reform after another, all directed to good and sound, thoughtful and conservative thinking has stemmed from that organization. The same may be said for the C. L. U. Association and it may be that the experiment to which I have referred will arrive, after a few years of experiment, at the same high place now occupied by the American Bankers Association Graduate School at Rutgers. The Bar Associations are beginning to stretch and move ahead toward these same goals. The section of the Real Estate Probate and Trust Law of the American Bar Association has done some notable work. The life insurance and trust councils of the United States have brought together lawyers, trustmen, insurance men and accountants in an extraordinary combination of sincerity and good fellowship. These councils need to do something, to be sure, about laying down standards of excellence of estate plans. Perhaps they need to create a standing committee to which proposed plans might be submitted for the obtaining of the hallmark of approval. They need, also, perhaps to give greater incentives for the creation of excellent plans and to impose stricter discipline upon departures from sound procedures. But they are moving in the right direction and are educating themselves by drawing upon the experiences of our fellow members. The journals in the field of trust administration, taxes and estate planning are very helpful. From magazines like "Trusts and Estates" and the "Trust Bulletin" of the American Bankers Association and from studies like those which have been produced by the Practicing Lawyers Institute, a working affiliate of the American Bankers Association, a great many nuggets of authoritative common sense can be extracted. The concept is widely growing that the estate planning job is a team job—that a sound estate plan should always be considered from the standpoint of the lawyer, the trustman and the underwriter, and often from the standpoint of the accountant. All in all I think the trends in our field in these past years have been distinctly for the good. We may not have arrived at the time, as Churchill once suggested, when all that is needed is "one good push," but we are beginning to see that the allies are likely to win over the long run, and if each man does his job with a maximum of fidelity and steadfastness of purpose and a reasonably large admixture of imagination and open mindedness, we shall some day have perfected a social instrument of great and lasting value.

7 Helvering v. Hallock, 309 U. S. 106.
8 Helvering v. Clifford, 309 U. S. 331.
9 311 U. S. 112.
10 311 U. S. 122.
11 109 Fed. 2nd 99 Cert., denied, 310 U. S. 367.
12 317 U. S. 154.

13 See Prof. Griswold's remarks before the Legal Section of the American Life Convention, Chicago, Ill., Oct. 5, 1942, and see Life Insurance & Taxes, E. Albert Gilbert, in "Your Investments," Vol. VI, No. 12, Dec. 1945.

NYSE to Resume Daily Stock Clearances

President Schram of the New York Stock Exchange announced on April 19, the decision of the Board of Governors of the Exchange to reestablish in the Stock Clearing Corporation as soon as practicable—which will probably be around June 15—the daily clearance of contracts between members in listed stocks, which was temporarily discontinued in 1942. Mr. Schram in his announcement to member firms says:

The restoration of the clearance is deemed advisable at this time in view of the increase in the volume of transactions on the Exchange since 1942 and the consequent advantages to be gained from the elimination of deliveries by means of "offset" on a clearance sheet.

The program contemplated is considerably enlarged from the clearance operation previously conducted by Stock Clearing Corporation. The full utilization of the machine method of clearance, which was being experimented with at the time the clearance was discontinued, will permit the preparation by Stock Clearing Corporation of certain lists and tickets which individual firms were previously required to prepare.

The restoration of the clearance on this basis will involve the addition of another "skip day" between the date of trades on the Exchange and settlement dates. The addition of this extra day appears necessary if the full benefit of the clearance is to be obtained. The initial charge to be made by Stock Clearing Corporation for the clearance will be considerably less than that in effect at the time the clearance operation was discontinued.

The Board of Governors of the Exchange has considered this plan most carefully. It is realized that there can be no unanimity on all of the details of a clearance. Under the circumstances, we have set up what we believe to be the most satisfactory and feasible plan, taking all viewpoints into consideration. Various ideas have been discussed for the further refinement and improvement of the clearing process. After the clearance is in operation some of these probably will be put into effect. However, our principal interest at this time is to reestablish the clearance in what appears to be the most practical manner under present-day circumstances.

I hope that the re-institution of the clearance will prove to be, as we believe, a step in the further increased usefulness of the Exchange organization to its members.

Leffingwell, Szymczak On Monetary Problem

R. C. Leffingwell, Chairman of the Executive Committee of J. P. Morgan & Co., Inc., and M. S. Szymczak, member of the Board of Governors of the Federal Reserve System will discuss "Our Monetary Problems" at the 157th dinner meeting of the Economic Club of New York, Wednesday, May 1 at the Hotel Astor, New York. At the same time the annual election of officers will be held. Thomas I. Parkinson, President of the club, will preside and act as moderator of the discussion period which traditionally follows the delivery of the addresses.

The Search for Economic Security

(Continued from page 2075)

talistic country of the world, the depression and the accompanying unemployment brought about a great many changes in our economic structure and in the attitude of the people towards the Government, and, hence, in the power of the Government over the economic life of the nation.

The war and its aftermath, the great destruction of wealth that has taken place in many parts of the world, and inflation accompanied by a constant decline in the purchasing power of the currencies, have resulted in the impoverishment of many families and of entire classes. These people are today more conscious of the need for economic security than ever before.

In many parts of the world, more than ever the people look toward the government for protection against unemployment, for protection in old age and during sickness. They expect their governments to provide them with shelter, medical care and free education for their children. Only recently the Parliament in Great Britain passed a social security law which actually assures every resident of the British Isles economic security from "the cradle to the grave." It is questionable whether the British economy can support such a scheme of social security under conditions as they exist.

This desire for economic security and the demand that the government furnish it are to a large extent responsible for the shift to the Left and the nationalization of important segments of industry, the trend toward state capitalism, the splitting up of large estates and the passage of various social security laws. If we look around, we find that today Great Britain is in the process of nationalizing considerable segments of her economy. In France the National Assembly is discussing the nationalization of the coal industry, transportation and electric utilities. In Czechoslovakia 70% of the productive capacity of the country has been nationalized and the estates have been split up. All countries east of Czechoslovakia are gradually adopting a system which, for lack of a better term, one may call state capitalism.

This trend and desire for economic security must be recognized in the United States, for to overlook it is to court trouble later on.

Increased Economic Security Through Legislation: The people of the United States already enjoy a high degree of economic security. In fact, one may say that the economic security enjoyed by the people of this country already compares favorably with that prevailing or promised in a number of countries.

First, social security legislation has been passed here which protects millions of people against want in their old age. It also provides a stipulated income for a certain period of time during periods of temporary unemployment, and through compensation insurance a large number of Americans are protected against occupational accidents.

Second, corporations throughout the land have recognized the need for protecting employees in their old age, with the result that pension funds have been established by a large number of corporations. Since pension funds are economically sound and socially highly desirable, they will spread, thus providing many more Americans with security in their old age.

Third, the farmers are today protected by law against a sharp decline in prices of commodities which they produce, and they are able to insure their crops against the hazards of nature at a relatively low cost.

Fourth, about 15,000,000 American workers are members of unions. Their wage contracts are based on collective bargaining and the management does not have the right to discharge an individual as before.

Fifth, legislation has been passed and agencies established which protect the individual against loss of his home through foreclosure.

Sixth, considerable progress has been made by municipalities, states and the Federal Government to care for the indigent and the sick. This increase in economic security was achieved primarily through legislation.

Increased Economic Security Through Individual Efforts: In addition the economic security of a great many individuals has improved as a result of their own efforts. The savings of the people today are extremely large. It was estimated that the liquid assets at the disposal of individuals, consisting of bank deposits (time and demand) and Government obligations amounted at the end of 1945 to $145,000,000,000 as compared with $45,000,000,000 in 1939, an increase of $100,000,000,000. In addition, the volume of life insurance written and the number of people insured have increased very materially. Life insurance coverage increased from $98,000,000,000 in 1934 to $154,000,000,000 in 1946. Hence, a great many more Americans have protected their families against want caused by death.

Private indebtedness has decreased materially, not only that incurred in connection with the purchase of durable consumers' goods, but also mortgages. Hospitalization plans have been increased and today many Americans are protected against the hazards of sickness.

We find, therefore, that partly through legislation and partly through their own efforts the economic security of the American people has increased materially.

Many other measures taken by the Federal, state or local governments as well as by individuals could be cited. It may be concluded that the people of the United States enjoy today a high degree of economic security which compares favorably with that prevailing in many parts of the world. With the exception of widening the social security law to include more people, to widen its scope and place it on a solid financial basis, there remain two principal problems to be solved in the future.

Problems to Be Solved: These are, first, to protect the savings of the nation. That is, to protect the economic security which people have achieved through their own efforts. And, second, to prevent large-scale and prolonged unemployment. If we solve these two problems, we will have furnished the American people with the highest degree of economic security without at the same time changing our way of life, our economic system or our political institutions.

The problem, therefore, is twofold: (1) to protect the accumulated savings or the economic security which people have achieved through their own endeavors. This involves two phases: (a) to protect them against their own acts. We must induce people not to spend their accumulated savings foolishly, particularly at the present time. (b) Through education or otherwise, we must try to prevent people who know nothing about equities from entering the equity market or engaging in urban or rural property speculation. Above all, I believe it would be desirable if at the present time some movement could be started to encourage a buyers' strike. If the people were not so eager to spend their money as freely as they do at the present time, the danger of inflation would not be so great.

But this problem is relatively minor in character. After all, we know that most people in the United States are thrifty and rather careful as to how they spend their money. The real problem is how to protect their economic security against the ravages of inflation. The middle class of Europe was wiped out by inflationary forces. It must not happen here, for to destroy or drastically reduce the purchasing power of the people's savings would undermine our very economic existence.

The savings of the people consist primarily of cash in the form of deposits, life insurance and Government bonds. The purchasing power of these assets is subject to fluctuation. It is quite evident that any sharp increase in prices of commodities would reduce the purchasing power of these assets. A sharp increase in prices would drastically reduce the value of life insurance, of pension funds as well as other investments.

The danger of inflation in the United States is greater than most people believe. It is greater because most people believe that the danger of inflation arises only out of the shortage of commodities, and that as soon as production increases and the supply of commodities becomes larger, the forces of inflation will disappear by themselves. This is not so. One of the principal causes of inflation is the huge amount of purchasing power in the hands of the people created by the faulty methods of financing the war deficits of the Government. You cannot increase the volume of deposits by dozens of billions of dollars, you cannot increase by billions of dollars the amount of Government securities which can be converted at a moment's notice into cash without setting inflationary forces at work. The floating debt of the country is large. The public debt is exceedingly large.

Under the new wage-price policy recently announced by the Administration, wages and prices will rise, thus increasing the cost of production and threatening a spiral between prices and wages. Right now, the farm bloc is endeavoring to bring about a further increase in prices of farm products. If this were to take place then the cost of living is bound to increase and, without any question, this would lead to a demand for higher wages and, if not granted, to strikes which would reduce the volume of commodities available for consumption. If granted it will further accentuate the spiral between prices and wages.

The controls over consumption have been prematurely removed. Taxes were prematurely lowered. Unless measures are taken to defeat the forces of inflation, there is no question that commodity prices will continue to rise. A sharp rise in prices will reduce the real savings of the people, including life insurance on which the security of so many people rests. It will reduce real income for many millions, and will affect adversely the future course of business activity and cause considerable unemployment. Above all, it will undermine the faith of the people in democratic institutions, and strengthen the demand for greater Government controls.

Inflation, therefore, or a sharp increase in commodity prices would destroy or materially weaken the economic security which many millions of individuals have obtained for themselves and once impoverished they would begin to look toward the Government for economic security, which means a considerable change in the American way of life.

What can be done? First, stop the deficit financing of the Government and bring about a surplus as fast as possible. Second, keep taxes at a high level as far as possible. Encourage thrift. Third, it is highly desirable, in fact necessary, that the Treasury carry out refunding operations on a large scale, which would reduce the volume of deposits held by the banks. Fourth, it is necessary to curb speculation in commodities, equities and real estate, particularly that type of speculation which is carried out with the aid of bank credit. Above all, the Administration and its advisers must finally realize that it is impossible to maintain the line on commodity prices if the line on wages is not held.

It is high time that those in charge of our economic affairs in Washington realize once and for all that an increase in wages, unless accompanied by an increase in the productivity of labor, leads to higher prices and that higher prices in turn may lead to higher wages, thus setting in motion the spiral which ultimately leads to inflation.

Personally, I believe, and I certainly hope that I am right, that the Administration as well as the people have recognized the consequences of a sharp rise in prices of commodities on the economic security of the people and that the necessary measures will be taken to prevent the inflationary forces from taking deeper roots.

The second problem in this connection is large-scale unemployment. This, in my opinion, is not likely to occur during the next two or three years. During the next few years business activity in the United States is bound to be on a high level. Not only will industry and agriculture be called upon to meet current demands but also to fill the vacuum which has been created during the war.

There is a great vacuum of durable consumers' goods. There is a great vacuum in housing, et cetera. If during the next few years when business activity is at a high level, we take the necessary measures to prevent an increase in unemployment, then I believe that the question of economic security in the United States will have been solved to a large extent. The necessary measures must be taken when business activity is high. Measures taken in emergencies invariably are hastily drawn up, and as a result are often unsound.

Unless we take the necessary measures, there is a really serious danger that after the catch-up period is over, we may have larger unemployment than we had during the '30's. All indications point in that direction. What measures should be taken during the next few years, when business activity will be at a high level, to prevent large-scale unemployment?

It is impossible within the time allotted to me to even mention all measures. I therefore enumerate only some which seem important.

First and foremost, conservative planning of public works, including housing, to be erected with the aid of the Government. We all know that there is an accumulated demand for all kinds of public works, large and small. If these public works were handled carefully, if their construction were coordinated with the swings of the business cycle, then the Government during the next few years, and by government I mean Federal, state and local, would merely erect the most necessary works: plans would be ready and then when business activity begins to turn downward, we would spend billions of dollars on public works.

Such a policy, in my opinion, is wise because the holding back of construction of public works at the present time would remove the Government from competition with private enterprise for raw materials and labor of which there is a shortage at present. On the other hand, when the economic void has been filled and raw materials are plentiful, the construction of these public works could create an additional demand for raw materials and labor.

Second, it is essential that a thorough study be made of the tax system of the country, what effects existing taxes have on capital formation, capital investments and business activity. Since revenues and expenditures of the Federal Government in the post-war period are bound to be substantially larger than before in peacetime, it is quite evident that taxes and expenditures of the Government are bound to exercise an influence on business activity. It is necessary to revamp the entire taxation system, coordinate it with the swings of the business cycle. Above all, reduce expenditures to the bone during the next few years.

Next, it is essential that Congress appoint an unbiased committee to study the existing labor legislation in this country and elsewhere, and to prepare adequate legislation to correct present inequities, malpractices and injustices. When a large number of the people are entirely beyond and above the law, it invariably causes trouble, particularly when business activity declines. In my opinion, it is necessary for Congress to study very carefully the effects of the disequilibrium of wage rates that has developed during the past few years. High wage rates in some industries, relatively low wage rates in others, make mass production and mass consumption impossible.

Credit and banking legislation in the United States has been passed in almost every session of Congress. At the present time we need legislation concerning the currency, banking, and the powers of the Treasury and Reserve authorities over the money market.

Our agricultural policy needs complete overhauling, and unless measures are taken to change the present agricultural policies of the Administration, we will lose our foreign markets for American farm products. What effect will this have when business activity once turns downward?

Briefly, during the past dozen years, a great many laws have been passed, some good, some bad. During the next few years when business activity will be at a high level, when no emergency will confront the country is the time to study all this legislation, to revise what needs revision and to pass additional legislation which will tend to prevent wholesale unemployment for prolonged periods of time.

Conclusion:

The desire for economic security is world-wide and gained further impetus during the war because of the ravages of the greatest conflict that ever afflicted the human race. In many countries the people gave up the rights for which many generations had fought in exchange for at least a promise of protection against want. Politicians as well as statesmen throughout the world have recognized this desire for economic security and measures are being taken all over the world to fulfill it in one form or another.

Great progress has been made in the United States in furnishing a large number of people with a high degree of economic security. Certainly many more people in this country today are protected against the hazards of life and death and their occupations than ever before. The economic security achieved by the American people so far has been partly the result of their own efforts and partly the result of various types of social legislation. The great problem that confronts the nation at the present time, therefore, is to protect the savings of the people and to prevent a sharp rise in prices of commodities. The latter would reduce materially the purchasing power of the accumulated savings consisting of deposits, life insurance, Government bonds, pensions, etc., and therefore would impoverish many people, reduce their standard of living and undermine confidence in the democratic institutions of the country. This problem is more pressing than is generally believed for few people realize how great the dangers of inflation are and how disastrous its economic and political consequences are.

The second problem that will have to be solved during the catch-up period, when business activity will be at a high level and when the nation will on the whole enjoy satisfactory employment conditions, is to prevent large-scale and prolonged unemployment which constitutes the greatest danger to the economic security of many people who depend on their wages and salaries for a livelihood. While it might not be possible to eliminate entirely the business cycle yet through careful planning by Government, business and labor, by cooperation among them, the major swings of the business cycle can be eliminated.

The progress made to achieve economic security in the United States has been substantial. Based on the resources of the country it is possible to give the people of the United States the highest possible degree of economic security and at the same time maintain the foundations on which the American way of life rests. The time to act is now. Now and not tomorrow is the time to fight with all the means at our disposal the dangers of inflation. Once these forces have been defeated the time will have arrived for the nation as a whole to make plans to prevent large-scale unemployment once the pent-up demand has come to an end and business depends on current demand. A nation which could achieve miracle after miracle during the war certainly can solve this problem too.

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return of industry to some vague and undefinable level usually described as "normal." The fact is that what most of us remember as "normal" production—the production of some prosperous prewar year—would come nowhere near meeting either the crying needs of today or the permanent long-range demand which we may reasonably expect in the future.

Ravenous Purchasing Public

The purchasing public is ravenous now, and I believe that even after we appease the present hunger we may expect a healthy appetite for goods and services to continue indefinitely. We are not going back to the demand level of the 1930's. The nation is filling up within its borders; during the war an abnormal number of new families was formed, and the birth rate jumped sharply. People grew accustomed to better standards of living. The boy who used to run around in an old jaloppy has grown up and wants a new convertible.

I think that increased demand—greatly increased demand compared with anything we have previously called "normal"—is here to stay. The long-range production goals at which we must aim include a considerably greater output than we have ever achieved before. Unless we upset our economic apple-cart by letting inflation get out of hand, more people will want more goods than they have ever wanted before, and they'll have more money with which to buy them. The result should be a healthy, solid prosperity which will be felt in every line of business.

Must Channel Production

Until we do get over the hump of accumulated demand and make up the temporary deficits created during the war, we must channel our present production of certain very scarce materials and goods into things where it is most urgently needed. This policy of giving the right of way to necessities is being applied in the low-cost clothing field. Also, it may have an immediate and direct effect on any of you who have been planning to do some construction. In collaboration with Mr. Wyatt, the Housing Expediter, CPA has just issued an order which affects all non-essential construction and conserves materials for the low-cost homes which the veterans need. This order is not as restrictive as it may be made to sound. It definitely does not prohibit any non-housing construction which is essential and which cannot be postponed. Decisions as to what is necessary and what may be postponed will not be made arbitrarily in Washington; they will be made in local communities and in consultation with a committee of local citizens who will be familiar with local needs.

We simply do not have all of the building materials needed so that everyone can go ahead and build anything he likes. About two billion dollars' worth has to be cut out, and that is no easy task.

The small stuff—such as a residential alteration costing less than $400 or a commercial construction job costing less than $1,000—can go ahead without any authorization. So can any project already under way on March 26, when the order was issued. But the order will mean that if you want to do any major building, such as a garage for a fleet of trucks or a new office building or warehouse, you will first have to get permission from the CPA construction field office in your district.

The standards on which applications will be judged might be summed up in two questions:

First: "Is the project **necessary?**" If the answer to that question is "No," the application will be rejected.

Second: "Even if the project is necessary, can it be postponed?" If the answer to this question is "Yes," the application will be rejected.

Of course that may be an oversimplification. Nevertheless, it is a formula which will generally apply, and I urge that everyone who is thinking of building apply the formula for himself before he goes to one of the CPA field construction offices to fill out a form. If you cannot say in all honesty that the work is essential and that it cannot possibly be deferred, please do not submit an application.

The CPA will process applications for all non-residential construction with the exception of farm buildings. In deciding whether projects are essential and non-deferrable, each CPA field office will be advised and guided by a local committee of outstanding citizens, in whom the community should have full confidence. These citizens are not bureaucrats; they are people who are familiar with local conditions, local problems, local peculiarities.

No Arbitrary Yardstick

The construction needs of a thousand towns from coast to coast cannot be measured accurately against any one arbitrary yardstick developed in Washington and written in legal language. There are human elements and community needs which vary from town to town and perhaps even from neighborhood to neighborhood. The citizens' committees will help us judge each application in its proper perspective.

For example, it would not make sense to grant an application for a new factory which would create new labor demands in an area which already had more jobs than workers. In another community, where there was some unemployment, the committee might favor an application which would create job opportunities. If a new community doesn't have a drug store, an application for one would probably be granted. If the community already had plenty of drug stores, the answer would be "No."

By this sort of selective process, going on simultaneously in all parts of the nation, we expect to set aside enough building materials for the veterans' housing program and for all other essential construction, maintenance and repair.

The critical shortage of building supplies has forced us to put controls on construction. Nevertheless, the basic policy of the Civilian Production Administration—and in this we follow the clearly-stated will of the Congress—is that controls will be used as seldom as possible, as sparingly as possible, and only to the extent absolutely necessary to help reconversion and to prevent dislocations in our economy. The CPA is not working against business. Most of our executives are business men, brought to Washington precisely because they do know business from the inside and are in sympathy with free private enterprise.

It is our policy to keep checking on the need for controls and to eliminate each individual control as soon as possible. We are prejudiced in favor of removing controls; we would rather drop them too early than too late.

Newsprint Production

In comparison with other industries, the people who publish and distribute books, magazines and newspapers haven't done so badly. Government controls over magazine and book papers were lifted in 1944, and while there still is a shortage of some of these papers, the industry is expanding. A few days ago Mr. E. W. Tinker, the Executive Secretary of the American Paper and Pulp Association, estimated that our capacity for producing printing paper would increase by 600,000 tons in 1946. He added that ". . . the outlook for 1947 from the standpoint of the consumer and distributor justifies some degree of optimism."

Our CPA estimates of the United States production of ground-wood printing papers during the first three months of this year indicate that production is up about 14% over the first quarter of 1945. For the same period, we estimate that book paper production is up 30% and fine papers up 10% over what it was a year ago.

In newsprint, it is estimated that 1,935,000 tons will be available to United States consumers in the first half of this year. This is practically the rate at which newsprint was consumed in 1941. We hope that even more will be available during the second half. There are no accurate figures, but reports from Canada and Newfoundland—where most of our newsprint is produced—say that this should be an excellent wood-pulp year.

Newsprint production in Canada, Newfoundland and the United States during the first two months of this year was 22% higher than it was a year ago. Consumption of newsprint, on the other hand, was 26% higher.

At the end of February of this year, newsprint inventories in the hands of manufacturers were almost 13% higher than the inventories a year earlier. At the same time, however, inventories in the hands of newsprint consumers were 15.6% lower than they had been on the same date in 1945.

Trucks and Tires

You will also be interested in the outlook for trucks and tires. With strikes in both the automotive and steel industries, truck production got off to a bad start. We produced roughly civilian 55,000 trucks in January—the best month since the end of the war—but dropped below 29,000 in February. March production ought to be back up to the January figure. But our **average** January production for the five years before we entered the war was approximately 70,000 trucks, and in 1941 the January production was over 100,000. How soon we get back to a high rate of production is doing to depend on how much strikes interfere with production and on how soon we can overcome parts and materials shortages which extend all through the automotive field. The truck production men in CPA estimate that even if we have no more dislocations it will be well into 1947 before truck producers can fill domestic needs alone.

The tire picture is a little brighter. Production of tires for trucks and buses has been rising steadily, and was averaging more than 302,000 tires per week in February. If we could keep up this rate of production for a year it would mean almost 16 million truck and bus tires—about double our average annual production for the five years before the war. But the demand for tires is so great that you will have to continue using tires carefully and having them recapped. But I don't think any trucks are going to be off the road because of a tire shortage.

Inflationary Dangers

I have covered some of the fields in which you, as newspaper and magazine distributors, are especially interested. I want to talk now about a problem which everyone has in common—I mean the danger of inflation.

Unprecedented amounts of ready money, accumulated consumer demand, shortages of materials and manpower, and the need to reconvert factories or build new plants—all these and many other factors have combined to generate a powerful inflationary pressure in the United States. It is a pressure which can be relieved safely only by bringing production up to the level of demand. Many factors are involved. You can't pick out one bottleneck and say that it is the key to the entire situation. There may be bottlenecks in prices, in labor, in materials or in manufacturing facilities. The agencies concerned with each of these fields are working together, making adjustment in control as quickly as the need for a change can be foreseen. One of our greatest needs is for everyone—in Government, in industry, in business and in labor—to have patience and confidence and to take a broad view of the problem.

Recently some individuals and organizations have been clamoring for an immediate dropping of all controls, especially price controls. Their argument is that once controls are dropped, our economy will quickly adjust itself on a supply and demand basis, with production increasing all along the line and prices being held down by competition. They pooh-pooh our fears of uncontrolled inflation.

These persons and groups are saying to us, in effect: "Let go of the reins—that horse won't run away." Unfortunately, when we went through this sort of a period after the first World War we **did** let go of the reins and the horse **did** run away. We can't afford to take another chance this time, at least not while the horse shows signs of having its mind on a short, frantic dash instead of a long steady pull.

Believe me, we in Government are just as anxious as anyone else to get out of the controls picture and get back to our own homes and our own businesses. That time will come when our job is done, not when we have been pushed off the scene by one pressure group or another.

That job is to bring production up to such a level that the abolition of controls will not leave the average American consumer out on a limb. There will come a time when all, or nearly all, controls will cease. Our job will be to meet that deadline with a volume of production which will smother the threat of wild inflation.

The problem which we face, especially in its inflationary aspects, cannot be regarded as a purely domestic one. Besides being the world's biggest producer, the United States is the world's biggest customer. Uncontrolled inflation anywhere in the world hurts us by making us buy raw materials at inflated prices and sell our goods in unstable markets.

The only safe way to beat inflation is to bring production of every sort of commodity up to the point where it will meet the demand. The Civilian Production Administration is trying to help industry reconvert and increase its output. Keeping in mind that various types of control may be combined to meet a single situation, and that **no** controls are used unless they are clearly necessary, let me tell you briefly what the CPA is doing.

First, we have inventory controls must, such as the one on newsprint. These limit inventories to minimum working levels and prevent preemptive buying of materials. By this I mean that we try to keep one producer from accumulating more materials than he can currently turn into end products if this would force other producers to keep labor and machinery idle for lack of the same materials.

Second, we have controls over a few scarce items, such as tin, lead and rubber, where the supply will not meet unrestricted demand and we want to channel what is available into the most essential uses. Our controls over lead, for example, make it possible to produce enough batteries to keep our cars and trucks and busses running.

Next, we have controls designed to produce an adequate volume of low-cost goods. In this connection I have already mentioned housing. Another example is the program to produce low-cost clothing. Both are important parts of the Administration's stabilization program. Both are also directly related to the needs of our returning veterans.

Finally, we have controls intended to help companies obtain small amounts of bottleneck materails, to give business quick spot assistance in getting something the lack of which is holding up production. Since our men at CPA have a good view of national production as a whole, they can often show a manufacturer where he can get his material without any priority order. We do not issue priority ratings when materials are available from alternate sources, or to enable a producer to get a better price than he could otherwise get. Priority ratings are used sparingly, to break bottlenecks.

These are the control tools with which the Civilian Production is trying to help this nation turn out the goods it needs. Our problem is to decide, first, the minimum of controls necessary in any given situation, and second, how and to what extent unavoidable controls will be applied. During the war our predecessor agency,

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the War Production Board, had a clear-cut yardstick on which to base its decisions—the war needs overrode all others, and if something was needed in the war program it went under controls. Today the CPA has no such yardstick, and its decisions often involve difficult evaluation of needs, difficult classification of degrees of essentiality. We have few simple choices between black and white, and many tough decisions between varying shades of grey.

Nevertheless, we are trying to do more than just make decisions. We have adopted a definite policy of going out of our way, of cutting across lots and of sweeping away red tape, in order to give every possible assistance to industry. We know that controls are not an end in themselves, that goods are produced in factories and not in Government agencies. We want to help industry, and to that end we will use not only controls, but also any other means of assistance within our reach.

We are attempting to maintain great flexibility because the production situation changes from week to week. For example, because of differences between labor and management the steel mills have failed to produce 6,000,000 tons of steel on which industry had counted. This loss cannot be made up. It will be felt throughout our economy for a long time, and it has complicated our job at CPA. Now, with a coal strike in progress and steel mills already curtailing operations for lack of coal, we may have even more complications. We certainly hope that the coal strike will not last so long that it will be necessary to institute any broad allocation system for steel, but we do know that an occasional emergency action will be necessary to make the best use of the steel we will have.

That example illustrates how we may be forced at any time to use controls when we had not counted on using them. Not all situations are as simple. Actually, the Civilian Production Administration frequently is approached by industry and asked to institute or reinstate controls. Usually such requests from an industry or from a trade group are founded on reasonable need, but we also have exposed to pressure from interests which want us to put into effect a control principally because it would put them in a favorable competitive position or serve some other selfish interest. The theme song of the people who make these selfish requests goes something like this: "Sure, I think controls should be dropped as soon as possible. But put back just this one control for me. I'm an exception."

I want to emphasize that priorities and controls were not intended, and will not be used, as a substitute for individual self-reliance and resourcefulness. We do not want businessmen to come to the Government for priorities when the exercise of their own initiative would enable them to satisfy their needs. I am sure that they don't want to do it. We are not going to institute any rob-Peter-to-pay-Paul controls which merely reshuffle our materials without increasing the overall production of critical goods.

All of our controls are being used with one objective: to get production into high gear as quickly as possible. We all wish we could throw a switch and immediately transform the volume of goods we produced for war into a similar volume of goods for peace. Unfortunately, few industries are adapted to lightning changes; most of them have needed time for reconversion. But they have done an excellent job—physical plant reconversion is pretty well done.

The Civilian Production Administration is an excellent observation point from which to follow this reconversion. In most fields there isn't any question about it; the goods are on the way. I can promise you that we at CPA—and I think everyone in Government—will do everything possible to increase the volume of essential commodities and the speed with which they are produced. In the meantime, we are counting on the continued patience, fairness and confidence of the American people.

Mead Committee and Lend Lease Settlements

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in the United Kingdom. These facts are the pertinent and controlling facts in establishing price in any commercial transaction. That they were deemed to be unimportant by the Foreign Liquidation Commissioner in conducting his negotiations with the British is an indication of the casual fashion in which these public assets were handled."

As to the lend-lease settlement, under which the United States is scheduled to receive over a 55-year period 8.5% of the cost of some $5½ billions of still-unconsumed lend-lease supplies in the hands of the British, the committee states in part as follows:

". . . it is apparent that the only specific benefit which has been received for the settlement of the excess of lend-lease aid furnished to the United Kingdom over reciprocal aid furnished by the United Kingdom to the United States is that the Government of the United Kingdom has promised, as indeed it had already promised in the master lend-lease agreement, to participate in an international conference to consider ways and means of eliminating obstacles to trade between nations, and in general terms has agreed to support the position announced by our State Department.

"The committee is unable to see any reason why the United Kingdom should refuse to participate in such a conference, even if no lend-lease aid at all had been furnished. Whether any benefits are to be derived will depend upon achieving agreement with other countries. In such agreement the United States will also have to make concessions, such as the lowering or elimination of tariffs, which concessions, in themselves, ought to be sufficient consideration for like concessions made by other governments. The United Kingdom is committed to nothing specific. By the very terms of the settlement and the statements in the master lend-lease agreements, the United Kingdom could not be held to make any concessions whatever in any present advantages it has in world trade because of restrictions or special privileges, since the very undertaking it has made contemplates that concessions will be made by other 'like-minded governments.' If actual barriers to United States trade had been eliminated and the United Kingdom had undertaken not to reestablish them or other new limitations to accomplish the same objective, then the immediate cancellation of the lend-lease credit balance in our favor could be said to have been exchanged for a direct or indirect benefit. This, however, was not the case. The consideration which we received was illusory."

Stockpiling and Dollar Scarcities

Concerning stockpiling and the problem of dollar scarcities, the committee's report makes the following observations:

"The most serious problem facing us in foreign surplus-property disposal is the scarcity of dollars in the hands of foreign governments and foreign nationals with which to purchase our surplus property and at the same time buy everything else they need to reestablish their economies.

"This problem is not only the most serious, but is the most difficult to solve. It is the same problem which underlies our trade relations in the future with other nations, as, indeed, it has in the past.

"The committee called attention to this problem over a year ago in the report made by Senator James M. Tunnell and Senator Harold H. Burton to the Senate on Feb. 15, 1945, and Feb. 19, 1945, subsequent to an investigation of surplus - property - disposal problems in North Africa and the Middle East. The committee had hoped that tangible progress would be made by our surplus-property-disposal officials and that solving the dollar scarcity problem with relation to Government surplus property might well pave the way toward its solution for the benefit of our private commercial enterprises in the future. The committee regrets that it must report that it is unable to see that any substantial progress has been made.

"We have learned the simple economic principle that there must be a balance between exports and imports. After a period of years, when exports exceed imports, we arrive at a point where it is unfavorable for us to export further because of the scarcity of our medium of exchange in the hands of foreign countries. Even if we cancel the billions of dollars' worth of balances in our favor as a result of lend-lease consumed in the war, other countries will remain poor in terms of dollars. Desiring to conserve such dollar assets for the purchase of new products or items more sorely needed than those which are included in our surplus inventories, foreign countries and foreign nationals are reluctant to use dollars to buy our surpluses.

"The problem is to find something which we desire and which other nations have. The present situation in which the United States finds itself renders it more favorable for our Government to find abroad those things which we need as a nation than it is for private enterprise to do so.

"If we have learned the lessons of this war, we should be determined, as a nation, that another emergency will not find us deprived of those elements so necessary to a strong wartime economy, which determine the extent of our ability to defend ourselves. One of the most important and, of course, the most apparent shortage with which we entered the war was our need for raw materials. It requires no expert to state that our war effort, strong and effective as it was, would have been stronger and more effective if we had not suddenly discovered ourselves to be short of steel, rubber, petroleum, sugar, and a host of other raw materials.

"A bill is now pending in Congress for the stock piling of critical raw materials. Most of these will have to be acquired from abroad. Why should not our surplus property, which goes begging for dollars, be used for our national defense by acquiring the mineral and raw-material resources which are vitally necessary to war production and our economic strength? Months ago, the committee recommended informally to the executive agencies (appendix XVI) that experts in the Government departments draw up a bill of particulars of our needs, which we could then proceed to fill through the exchange of surplus property abroad. So far as the committee has been able to learn, no steps have been taken in this direction. It is true that a bill is pending in Congress to expand the authority of the Foreign Liquidation Commissioner to accept property and intangible rights in payment for surplus property, in lieu of dollars, foreign currency, or credits.

"Since the transfer to the State Department of the regulation-making authority of the Surplus Property Administrator on Jan. 31, 1946, and since section 32 of the Surplus Property Act of 1944 permits the exemption of dispositions of property located in foreign areas from the provisions of the Surplus Property Act, full authority now exists in the State Department to solve the problem of dollar scarcities insofar as they restrict surplus-property disposal abroad. An amendment was issued by the Secretary of State on March 15, 1946, permitting the transfer of surplus property in settlement of claims or in return for other property or rights (appendix XVII).

"One of the natural channels into which exports may flow when dollars are scarce abroad is the investment of our capital in foreign countries. Disastrous experiences in foreign investments by our private capital in the past, together with the instability of governments in some areas, and the threat of expropriation of property, render it unlikely that the problem of dollar scarcities will be solved soon unless our Government itself takes the lead. The most appropriate occasion for the Government blazing this pathway is in the disposition of its own assets abroad, which is now clearly and unmistakably a responsibility of the State Department itself."

Developments in World Bank and Fund

(Continued from page 2087)

the need for additional credit-control powers is said still to be in chrysalis form. Successive drafts have been making the rounds in an effort to find language on which the whole Board can agree. Pains are being taken to not unnecessarily antagonize any of the other group or agency interests involved. The report, it is thought, may ask for broader Board authority over reserves of banks, such as the power to require banks to observe a certain proportion of short-term securities in their government-bond portfolios.

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While the Treasury Department and the Federal Reserve Board see the problem from quite different viewpoints, there is said to be much smoother consultation between the Secretary and the Chairman than prevailed under Mr. Morgenthau's regime.

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Should the Board members agree upon a report while Congress is in recess, the report will be made public at once just the same, it is believed.

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While the President of the World Bank is selected by the executive directors in theory, actually the man nominated by the United States is sure to get the post. Whether this will be Lew Douglas will be settled in a few days, according to present indications. President Truman has stated that he favors Mr. Douglas.

* * *

Who will be General Manager of the World Fund is still a pending question. On the train returning from Savannah the matter was put to Governor Graham Towers, of the Bank of Canada. If the post does not go to him, there seems to be a good chance that it will be offered to another Canadian. At Savannah there was discussion of M. Camille Gutt of Belgium and Mr. J. W. Beyen of the Netherlands for this position. While some Europeans think there should not be too much North American influence in the top management of Fund and Bank, the fact remains that the money which will really make the two new institutions function is North American money.

* * *

France is to be represented by M. Mendes-France as executive director of both Fund and Bank. Since he cannot be in Washington in time for the opening of the May directors' meetings, France will be represented by alternate directors. M. L'Argentaye has been suggested in this connection.

China's executive director of the World Bank is to be Dr. Koo Yuchun, who was Vice Minister of Finance of China from 1941 to 1944 and a member of the Chinese delegation at BW. China's executive director of the Fund, Mr. Shen Lai-Ching, is a Shanghai banker with a reputation in the past as an exchange speculator. His bank, the Continental Bank of China in Shanghai, is believed to be mainly speculative in the character of its operations. Presumably because it does very little legitimate foreign exchange business, the Continental Bank in March failed to receive from the Central Bank of China the designation of "appointed bank," licensing it to deal in foreign exchange. Shen's appointment, which surprised many people familiar with Chinese affairs, is attributed to his close friendship with T. V. Soong, brother of Madame Chiang, China's "Missimo." Another brother, T. L. Soong, was a member of the Chinese delegation to the recent Savannah meeting of Fund and Bank governors. The Soongs are reputed to be one of China's wealthiest families today.

* * *

Former Secretary of the Treasury Morgenthau apparently has lost out in his public opposition to Mr. Lew Douglas as President of the World Bank on the grounds of Mr. Douglas' "connections with Big Business and Wall Street finance, his tie-ins with international financiers and his general point of view." But even if Mr. Morgenthau did not object to Mr. Douglas on this score, it is not clear that the international management of the Fund and Bank under the Bretton Woods plan fostered by Mr. Morgenthau would insure that the directors of Fund and Bank on taking office would leave behind all profit-making proclivities of themselves and their friends. In not a few countries of the world the personal enrichment of holders of public office or their associates is viewed complacently by their fellow citizens. In some places, even in our time, officials have risen from poverty to riches while their country has been experiencing monetary and financial distress. Those who next month meet around the directors tables of the Fund and Bank will bring together different standards of behavior. Hence their every action should be done with great circumspection.

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Venezuela, whose multiple exchange rates have thus far prevented ratification of Bretton

Woods, may decide to join the Fund and Bank before long and trust to work out its monetary commitment afterwards. Venezuela, by using different exchange rates for different categories of exporters, in effect is subsidizing coffee and cacao and taxing petroleum exports. If on the other hand Venezuela were to use a single exchange rate, and instead resorted to outright subsidies and outright taxes, would this violate the letter or spirit of Bretton Woods? Conceivably, the Fund may have to face this question. Haiti's new government is expected to ratify Bretton Woods. Haiti had no observer at Savannah. When the Fund and Bank are in full operation in a year or two it is estimated that their combined payrolls will reach 750 to 1,000 persons.

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India's executive directors at the Fund and Bank meetings next month will be J. V. Joshi and N. Sundaresan, but there seems to be uncertainty at this writing as to which will serve on the Fund and which on the Bank.

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Britain's temporary executive director on the Bank in May will probably be Mr. R. H. Brand, who heads the United Kingdom Treasury delegation in Washington. Mr. Brand was on the British delegation at Savannah. Who will represent Britain as executive director of the Fund is not yet known. A name heard at Savannah last month was that of Mr. Cameron F. Cobbold, Deputy Governor of the Bank of England, but there has has been nothing official on this post. Mr. Cobbold is also an alternate director of the Bank for International Settlements, an institution which is extremely unpopular with Henry Morgenthau, Jr., and Harry White, as the press conferences at Bretton Woods disclosed.

It is interesting to note that among the directors of the Bank for International Settlements today are Maurice Frere and Camille Gutt of Belgium and Emmanuel Monick, all three of whom were participants in the recent Savannah meetings. M. Monick is now in Washington, assisting M. Leon Blum in the negotiations for a loan to France.

Also at Savannah as a member of the Netherlands delegation was Mr. J. W. Beyen, at one time President of the BIS.

Kenneth Mackey Joins Stone & Webster Firm

Stone & Webster Securities Corportaion, 90 Broad Street, New York City, announces that Kenneth K. Mackey, Lt. Col., U. S. Air Corps Reserve, has become associated with the firm in its municipal bond department. In the past Mr. Mackey was with L. F. Rothschild & Co. and Mackey, Dunn & Co.

John J. Murphy Forms Own Exchange Firm

John J. Murphy, member of the New York Stock Exchange, and John Shields are forming Murphy & Co. as of May 1, with offices at 39 Broadway, New York City. Mr. Murphy was formerly a partner of Thomas Marsalis & Co.

E. Sanford Hatch Dead

E. Sanford Hatch, a member of the New York Stock Exchange for nearly fifty years, died at his home after a long illness at the age of 74. Mr. Hatch bought a seat on the Exchange in November 1896 for $20,000, selling it in May 1927 for $194,000, to retire. Two months later he returned to the Exchange, paying $218,000 for his seat.

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greatest opportunity we have ever had to lay the foundation for a future of long-range prosperity. On the other hand is the real and imminent danger of a destructive snowballing inflation, followed by a ruinous collapse which might well shatter our entire economy.

To grasp the opportunity that lies before us will not be easy. Nothing, on the other hand, could be easier than to let it slip between our fingers.

Congress is responsible, in the fullest sense of the word, for determining the course to be taken. It must decide what the situation is with which it has to deal. It alone must decide what is to be done. And before history and the American people it must bear responsibility for the consequences of its decision.

The Executive Branch of the Government has the duty of assisting Congress, first, by providing it with full information and sound advice on which wise decisions may be reached; and second, by carrying out the policy decisions which Congress makes with all possible skill and effectiveness.

In carrying out my part of this task, let me first outline as briefly as possible the main facts of our economic position as I see them.

Where Do We Stand Today

Judged by the ordinary indications of economic well-being, the country's position as we emerge from four years of war is remarkably favorable.

While some farm groups have been less fortunate than others, net income per farm stands more than three times higher than in 1939, an average of more than $2,300 per farm against $735 in 1939. Cash income from farm marketings, after adjustments for seasonal differences is 22% higher than on V-J Day.

While some workers are still working for low wages, average hourly earnings are about 60% higher than in 1939, and only 3% lower than on V-J Day. Employment is at an all-time peak.

While some businesses, particularly in the reconversion field, have been going through a temporarily slim profit period, dividend payments in the first quarter after V-J Day (the last quarter of 1945) were equal to the wartime peak, with profit *prospects* generally accepted as excellent. Bankruptcies are at the lowest peacetime point in 40 years. There are at least 400,000 more business men in operation than two years ago.

While we naturally have some production bottlenecks and delays, industrial production, already nearly 70% above the pre-war average, is at record peacetime levels, with new high levels being achieved each week. Retail sales are 110% above 1939 and 18% above the first quarter of a year ago. Even with due allowance for increases in the general price level since 1939, this represents a staggering increase in the actual volume of merchandise flowing over retail counters.

The stability of our economy which we achieved in war has so far been maintained in peace. Since August, 1939, the beginning of the war period, the consumer price index of the Department of Labor has increase 31%. The increase since May, 1943, has been only 3.4%. Since V-J Day the increase has been only 1/10th of 1%.

Even when we allow for deterioration in quality, this record is vastly better than that which we achieved in World War I, when the cost of living rose by 108%. The record is better than most of us dared to hope when the stabilization program was launched a little more than four years ago.

The average of wholesale industrial prices is 27% higher than August, 1939, 4.8% higher than in May, 1943, and 1.4% higher than on V-J Day. This compares with a total increase of 165% in the period of inflation during and after the first World War.

A brief comparative glance at some typical basic commodities is also reassuring. During the first World War the price of steel plates increased by 232%. Since August, 1939, the increase has been 13%. Corresponding figures for other commodities are: building materials, 218% and 35%; plate glass, 271% and zero; copper, 65% and 15%; anthracite coal, 82% and 44%; bituminous coal, 675% and 30%.

While we have thus stabilized the prices of commodities under price control and, in so doing, maintained the *general* stability of the economy, the record of uncontrolled prices by contrast is one of instability. Current increases in commercial rents run from 30 to more than 100%. Urban real estate prices have shot up by 60 to 65% since the spring of 1940, and by 15 to 23% since September, 1945, alone. Farm land values have gone up 69% since March, 1940. Since V-J Day, stock prices have risen over 20%, and the price of cotton has shot up by 25%.

These increases attest to the strength of the inflationary pressures that permeate the economy. In large part they explain the *sense* of rising prices which is so deeply troubling the country.

During the entire period of World War II, we have achieved relative stability in all the commodities under price control in comparison to the record of the first World War. We have also achieved far greater stability in the actual cost of an hour's labor, which is measured by "average hourly earnings."

In the first World War average hourly earnings rose 150% in manufacturing industries. The increase this time has been 61% since August, 1939, and 5.4% since May, 1943 (the effective date of the Hold-the-Line Order). Average hourly earnings have dropped 3% since V-J Day.

Let me emphasize that these figures are not hourly wage *rates*. They are the actual wages paid out by manufacturers—the actual *cost of labor per hour* which includes, of course, such factors as overtime payments and shift premiums.

It was inevitable that we should pass through a period of labor-management difficulties following V-J Day, just as we did after the armistice in the last war. With the termination of the "no strike" pledge and the dissolution of the War Labor Board, direct wage control for the economy generally ended shortly after V-J Day. Labor and management were asked to return to our pre-war system of free collective bargaining, subject only to limitations upon the extent to which wage increases could be reflected in price increases.

It was inevitable that some difficulties would follow. Collective bargaining skills had become rusty. Tempers following a long, strained period of all-out war were frayed on all sides.

Management was worried about future costs and the mechanical problems of reconversion. Labor was deeply concerned about the drastic cuts in take-home pay which would inevitably result as overtime work was eliminated and we returned to a normal work week.

The new wage-price policy announced by the President on Feb. 14th to deal with the situation which had developed is working more effectively than I dared to hope. The details of the wage stabilization rules which the President laid down have been carefully worked out by the Wage Stabilization Board in conjunction with my own office. These rules have established a basis for wage stabilization based primarily on the patterns for wage increases which have been developed by free collective bargaining, in the particular industry or locality involved, since V-J Day.

Between 600 and 1,000 cases are being handled by the Wage Stabilization Board each week. The increases on which approval has been requested range between 5 cents an hour and 20 cents. The fact that 85% of all the requests have fallen within the allowable patterns, or the supplementary standards, is a clear indication that both labor and management have been striving earnestly to cooperate with the Government's stabilization program in this difficult field of industrial relations.

The Wage Stabilization Board under the Chairmanship of Mr. Willard Wirtz has been performing an outstanding service. This tri-partite board was forced to tackle a peculiarly difficult problem following the adoption of the new wage-price program. It has been handling this task efficiently, constructively, and courageously, and with a rare sense of group tolerance and give and take.

While we have thus come a long way in the transition, we are still in mid-passage.

The underlying *economic* pressures making for inflation, as distinguished from speculative and other psychological pressures, are gradually lessening. They are, however, still tremendous, and they are greater than we had expected to encounter.

The basic fact to be recognized is that the total of current demand for civilian goods, based on real needs, still far exceeds the total of current supply.

Consumer spendable income continues at $138 billions, which is roughly the wartime level. Here is the first of several respects in which our post V-J Day expectations proved to be wrong. The sharp drop in employment which we anticipated did not materialize. While wage and salary payments at first declined, the decline was far less than expected because employment, after the first drop, held steady and then increased. As a result of this increase in employment and the increase in mustering-out pay, income payments to individuals had regained by March, 1946, their peak war levels.

The most astonishing development since V-J Day has been the extraordinary increase in consumer *expenditures*, which occurred even while consumer income was temporarily declining. Consumers are spending an increasing *proportion* of the income they receive and a greatly increased *number* of dollars.

During the first three quarters of 1945, consumer expenditures were at an average annual rate of $103 billions. In the fourth quarter—the first full quarter after V-J Day—they rose to $111 billions. In the first quarter of 1946, they are estimated to have reached an annual rate of $120 billions. This increase has occurred before the major consumer durable goods have become available and represents mainly increased spending for food and clothing.

One of the great question marks across our future is whether and for how long this extraordinary rate of consumer expenditure will continue.

We know that current consumer needs are abnormally high. Millions of returning veterans have had to start from scratch or near it to acquire a wardrobe, set up a household and furnish it. The immediate market for shirts, for example, is estimated at 320,000,000, against a production level of 160,000,000 before the war. The market for men's suits is at least 40 million a year, against a pre-war output of 21 million.

Consumer stocks of almost all goods are low, and distributors inventories, although gradually increasing, are far below the normal levels.

The most acute of some of these needs may be satisfied fairly quickly. The shortage of men's shirts, shorts, and pajamas, for instance, should cease to be a major problem by fall.

Common knowledge tells us, however, that the backlog of need for houses, automobiles, and other durable goods is huge and that it will be a long time before it is satisfied. Professor Sumner H. Slichter, of Harvard, estimates the backlog demand for consumer durable goods alone at $50 billions. In our biggest year, 1941, we produced only $10 billions worth. It will take 14 million cars simply to replace those more than nine years old. The acute demand for housing is estimated at 10 million homes with a sustained level of demand around a million and a quarter per year.

The public is naturally impatient to get the goods which they have gone so long without and their feeling that supplies should be forthcoming in record time is a reflection of their faith in our huge production ability.

In 1940, before the war, our approach to production was in many instances almost defeatist. There were those who said that eight million unemployed was a natural state of things and that we had become a mature economy with restricted industrial horizons. Perhaps that is why so many people reacted skeptically in 1941 when President Roosevelt called for 50 thousand planes and five million tons of shipping in a single year.

During the war period we have seen management and labor far exceed the early wartime production quotas laid down in 1941. We have marvelled at the flood of goods that have poured from our factories. Our impatience today with shortages and delays is a reflection of our new confidence that for us no production record is impossible. It will be easier on all of us, however, if we face up to the cold facts of our problem. The backlogs of demand accumulated through four years of war, plus the stupendous purchasing power developed by our industrial machine working at full blast, cannot be wholly satisfied for many, many months to come—even when present bottlenecks are eliminated and our employment rolls are increased by three or four million additional workers.

How much of current consumer expenditures represents speculative or frightened buying is impossible to tell. How much of this kind of buying there will be hereafter is a major question mark across our future. Current business demand parallels the intensity of consumer demand. Producers have been adding heavily to their plant and equipment and to inventories of raw materials and goods in process.

Business spending has reflected deferred demands and forward buying as well as buying to meet heavy current requirements. Manufacturers' inventories of materials and parts appear to have been built up substantially. However, there is evidence that these inventories are in many cases still below the requirements of present high level operations. Distributors' inventories, unquestionably, are still depleted.

How long it will take to build up inventories to meet reasonable requirements we do not know. Another major question mark across the future is whether manufacturers and distributors will seek to build up inventories above reasonable requirements in the hope of speculative profits on a rising inflationary market.

The enormous business and consumer demand which I have described does not remain unsatisfied because of failure to get production. As I have said, the pro-

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duction of civilian goods is higher than ever before in our history, and it is steadily going up.

The questions are naturally asked: where are these goods Why do heavy inflationary pressures continue in the face of this record production? Part of the answer to these questions is that the flow of production has not continued long enough to satisfy urgent needs even in the areas in which production is greatest.

The more important part of the answer, however, is that the increase in production has been concentrated in the field of industrial materials and equipment and in the preparatory stages of production of finished consumer goods. It was in this area that we could utilize directly the great expansion of capacity during the war. This is the area, moreover, where any major increase in the production of finished consumer goods has to begin. While we thus have a tremendous rise in the potential supply of finished consumer goods, the result has scarcely begun to make itself felt on retail shelves.

It is helpful to think of the entire process of production of civilian goods as a single pipeline, from the first stages of production of raw materials to the point of final sale to the consumer. Since V-J Day the input into this pipeline has been huge. The output by comparison with the demand which we face seems puny.

We are at the same stage in our conversion to peace as we were in 1942 in our conversion to war. At that time our gigantic productive effort had thus far been reflected in only a thin trickle of tanks, guns and planes. Not until 1943 did the pipline fill up and yield a flood of finished weapons.

A similar flood of finished consumer goods will eventually pour out of our present pipeline. Even after the outpouring begins, however, it is evident, as I have suggested, that it will take time before the tremendous accumulation of urgent demand can be met. Our present task is to maintain our economic and psychological equilibrium during the crucial interval while this process is working itself out. The question presented by the bill now before this committee is how best to do this.

In the great national debate on extension of the stabilization laws which is now in progress, three main alternative courses of action are being urged. The first is the proposal, put forward by the National Association of Manufacturers and others to drop price, rent, and wage controls immediately, except in a few selected fields. The second is the present program for the firm maintenance of controls while the danger of inflation continues and their orderly liquidation as soon as the danger subsides. The third is a compromise plan to keep the framework of controls a while longer but to relax their restrictions so as to remove as many as possible of the irritations and headaches that go with them.

I think I can best set forth the essential issues before the Congress by discussing each of these three plans in turn.

Choice One:
Dropping all Controls Now

I should hesitate to take time to discuss the suggestion to drop all price, rent and wage controls at this stage of the transition period if it had not been seriously advanced by representatives of a major organization of businessmen.

Discussion of the suggestion, however, has the advantage of clearing the air. Here are controls which nobody wants unless they are needed and which nobody would tolerate as a continuing part of American life. The NAM's proposal presents the basic issue squarely and honestly. Do we actually need these controls or don't we? The answer to this question turns mainly on an issue of fact. What would happen if we let the controls go?

Even the NAM agrees that prices would go up. How far up they would go at first is a matter of conjecture. This, however, is not the critical question. For the purpose of judging the proposal, let us make the most conservative possible estimate and suppose that the immediate impact on the cost of living and the general level of prices and rents would not at first exceed 10%.

The amendments to the Price Control Act now pending before Congress would raise prices and rents far more than that. I do not understand the NAM to suggest that the complete elimination of price control would result in any lesser *initial* increase.

The really important question is what the *secondary* consequences of these initial price increases would be. In the light of the overall shortage of goods in relation to minimum business and consumer needs which I have described, I believe the answer to this question should be clear. The result would be a snow-balling of further price increases, and a destructive runaway inflation.

How could we reasonably expect anything else to happen?

With prices rising and no assurance of where the rise would stop, the desirability of buying right away instead of later could not fail to occur to every businessman and consumer with money to spend.

In addition to $138 billions of current spendable income, consumers now have $145 billions of liquid assets which they can try to turn into goods if they think goods are a better bet than money. Businessmen, in addition to high current profits, have $80 billions of liquid assets and further borrowing power as well. This vast reservoir of funds which now are safely out of the market would begin to pour into it the moment a general rise in prices began, and it became clear that goods *were* a better bet than money.

While buyers with available funds were deciding to buy right away instead of later, sellers with available goods would be deciding, for the same reasons, to sell later rather than right away. Speculative bidding for goods, in other words, would start to climb at precisely the same time as speculative withholding. The existing gap between total supply and total demand would quickly be multiplied.

An increase of no more than 10% in the cost of living could not fail to set off a wave of demands for wage increases and of strikes in support of those demands. The further spurt of prices would double and redouble these demands. Higher wages would force up whatever prices had not gone up already.

At this point the country would be launched upon a free-for-all fight of industry, labor and agriculture to get its share in the general scramble—with consumers and fixed income groups generally holding the bag. Surely here are the raw materials of uncontrolled and uncontrollable inflation.

Labor organizations are far stronger now than they were after the last war when the rapidly increasing cost of living pushed wages up sharply. Many labor groups already have wage contracts with escalator clauses which tie wages directly to living costs. If prices get away this time, wages are likely to rise much more sharply even than they did last time. This means that our inflationary ascent can also be much higher than it was after World War I. It means, too, that when the inevitable collapse comes, wage rates can be expected to maintain their high levels to a far greater extent than they did when prices hit the toboggan slide in 1920. Such a situation in the midst of rapidly falling prices will threaten industry with great losses. To avoid such losses, industry can be expected to curtail employment more sharply than it did after the last war.

This can only mean a collapse of production and employment and ultimately of wages—even more disastrous than any we have experienced. Such a collapse would represent a serious setback to our determination to achieve full production and employment within the framework of a free democratic society.

Considering the present pressures, what is there which might stop this process of spiraling inflation and collapse? The answer of the NAM is production and the expectation of production.

The first difficulty with this answer is that the potential increase in production is not enough to convince even reasonable people that, with controls removed, prices would not keep going up, let alone frightened people. We can never hope to produce enough to satisfy the unnatural demand that would be generated by a panicky movement to turn the vast reservoir of liquid assets into goods.

The second difficulty is that rising prices would cripple production instead of being halted by it. Rising prices, as we have seen, mean rising costs, including rising wages. Rising costs are uncertain costs. Uncertainty destroys the basis for confidence in the planning and scheduling of production.

The expectation of rising prices, moreover, means the withholding of materials and parts. This is a blow in the solar plexus of production. The lack of one essential part can stop a whole production line. The systematic withholding of parts and materials in the expectation of rising prices would create a paralysis of production.

Rising prices mean a rising cost of living, and an outburst of strikes to enforce demands for higher wages to keep up with it.

Finally, an increase in production, even if achieved, would be futile to stop inflation unless the goods produced were brought promptly to market. The expectation of rising prices means the withholding of goods from the market or their exchange between middlemen seeking a quick profit by buying and selling to each other.

Common sense alone should be enough to tell us that huge-volume production cannot be based on unstable prices and costs. We do not have to rely on our common sense, however. Experience proves it.

After the last war we tried the experiment of lifting all the controls to get production. Production did get a quick stimulus; but the stimulus did not last, and it certainly did not stop inflation.

From the start of the postwar upsurge in January, 1919, to its peak in June, 1920, wholesale prices and the cost of living increased approximately 25%. During the same period production rose to a peak in January, 1920, of 15½% above January, 1919, and then, while prices were still rising, fell off steadily until June, 1920. After that came the collapse of both prices and production.

In this war we tried the opposite experiment and proved that huge-volume production *can* be secured with stable prices and costs. I need not repeat the figures on our record wartime production. Now we are in the midst of proving the point all over again with respect to peacetime production.

In light of this record of experience, and the known facts of our present position, I must repeat that the proposal to drop all price and wage controls at this stage of the transition period is reckless and irresponsible.

On the flimsy hope that the release from control would not be premature, it asks us to gamble away the solid accomplishments of four years of stabilization and the expectations of a successful transition to which they entitle us.

If against all odds we won the gamble, we would gain an earlier release than otherwise from the irritations of control, and nothing more. If we lost, we would face the penalty of a destructive inflation and still more destructive collapse.

Whether the penalty would have to be paid in full, no one can be sure. Certainly at some point the corrective processes of democracy would begin to work, once it became clear to everyone what road we were traveling. Certainly also, the measures which an aroused public would demand, in an effort to *restore* economic stability, would be much more stringent, much less palatable, and of much longer duration than the controls which Congress is now asked to extend for a year in order to *maintain* stability.

Exactly what these last-ditch measures would be cannot now be predicted. If we had the necessary determination to save the situation, we would have to start by setting up price and wage controls anew. But these controls alone could not be effective once inflation had begun to run wild. Drastic fiscal and monetary measures would have to be tried. Heavy increases in taxes on incomes—beyond anything we've experienced to date—and severe taxes on capital gains and on all liquid and capital assets would probably be necessary.

At best devices such as these would merely cushion the inevitable collapse—a collapse which on top of four hard and costly years of war would result in grave disillusionment and deep-seated bitterness.

Choice Two:
A Continuation of Our Present Program

The second of the alternatives before us is to keep meeting this danger of inflation intelligently and courageously and to continue to do what is necessary to stop it *now*.

The task we must set ourselves is to bring the total supply of available goods into reasonable balance with the total of urgent demand at the earliest possible moment. When this balance has been achieved, the basic economic pressures toward inflation will begin to subside. Buying will cease to be dominated by acute need, obvious shortages, and the *expectation of higher prices*. Instead, it will begin to reflect anticipation of postwar improvement and *better prices*. At this point, the bulk of the controls can be safely lifted, even though shortages of particular commodities remain.

What is the quickest and surest way to bring the total supply of goods into balance with total demand? The experience both of this war and of the last gives us an unmistakable answer. *We must maintain a stable economy in which people are confident that prices and costs are not going to run away.*

Such an economy is necessary to build up the supply side of the supply-demand balance. Only when prices and costs are reasonably stable can businessmen plan production schedules with confidence and then meet them. Only under stable prices will goods move to market freely and in normal channels as fast as they are produced.

To increase the supply of goods to the maximum we must, of course, adjust price ceilings whenever they stand in the way of production. Here again, however, we need a stable economy to make this method of increasing production work.

Increases in selling prices do not help production if they are cancelled out by increases in buying prices or other related prices. To be effective in increasing production, a price increase must be *selective*—that is, the particular price must be raised in relation to other prices—and the selection must be made carefully to be sure that other factors permit production to expand.

A stable economy is equally necessary to keep the demand side of the balance from being inflated by abnormal and speculative buying. I repeat: We can never *hope* to produce enough to satisfy the unnatural demand that would be generated by a panicky movement to turn the vast reservoir of liquid assets into goods. *To lick inflation we must keep the gambling money and the frightened money out of the market.*

What is the best way to establish an atmosphere of stability in which people are confident that prices and costs are not going to run away?

The first and indispensable step is for the Congress promptly and firmly to extend the stabilization laws for a full year, substantially as they now stand. Given firm action by the Congress, the way will be cleared for a period of firm administration which will complete the sense of confidence and stability.

During the dangerous period immediately ahead, the principal existing subsidies must be continued intact. This will give us the chance of preventing food prices from increasing materially. If we succeed, 40% of the cost of living for the average low income and middle income family will remain stabilized.

Rents can and must be held firmly. An additional 16% of the cost of living will thus be stabilized. Firm control must likewise be maintained with respect to all other commodities which are important in the cost of living or in business costs. The bulge in the prices of metal-using goods must be held to a minimum.

Existing policies must also be followed with respect to decontrol. The primary principle must be to decontrol particular commodities only when the purposes of the stabilization laws will be served by doing so. This principle will permit the steady relinquishment of controls over commodities which are unimportant either in the cost of living or in business costs. With respect to more important commodities, however, the controls can be relinquished during the dangerous period immediately ahead only in those cases in which prices will not rise as a result of the action.

These price policies are the necessary foundation for a firm wage policy. The present round of wage-rate increases based on the patterns already established must be completed on an equitable basis. President Truman's executive order of February 14 makes this possible. The order contemplates, however, that there will be no second round of wage rate increases forcing further price increases.

The success of the stabilization program depends on the achievement of this objective. A new round of wage rate increases, before they are justified by demonstrated increases in labor productivity, would be ruinous to stabilization. And let there be no question about this fact: *Unless we continue firmly to control the cost of living, new rounds of wage increases, each feeding back into higher and still higher prices, are inevitable.*

By following these policies courageously I believe we can continue to maintain the general stability of the economy and of the cost of living under the laws as they now stand. But even though the present law is renewed as it stands, inflation will continue to flow unchecked through serious existing gaps in the laws —unless Congress acts to close them. I particularly want to emphasize the need for curbing real estate prices through adoption of the Patman housing bill—including control of speculative increases in the prices of existing homes. I want to repeat again the plea I made in November, 1944, that action be taken to check the rise in commercial rents. Sharp increases in rentals for business space have seriously hamstrung many thousands of veterans who want to start new ventures and have pinched more thousands of existing small businesses.

If we are wise, moreover, we will buttress the program of firm price and wage controls which I have outlined by using, or being ready to use, all the other powers of government that can strengthen us in the fight against inflation.

The Second War Powers Act must be extended for a full year; and we must stand ready wherever necessary to exercise the powers it confers.

The present regulations of consumer credit must not be relaxed.

President Truman gave us good news the other day when he told us that the budget will be in balance even sooner than we expected. We must bend every effort, by reducing Government expenditures, to speed the day when this balance is achieved.

Taxes, as the President stated, must not be reduced. Whether or not higher tax rates are called for, it is too soon to tell. Present consumer income does not seem too high for the economy's *long-run* needs, once the production of consumers' goods really begins to pour out. But we must be quick to act when and if the need becomes clear.

This program of firm price and wage control, coupled with firm use of all supporting powers, will *give* us our best chance for an early end to the need for controls. The more resolute our action in the present time of danger, the sooner the danger will be over. Other factors permitting, these policies will give us a period of full civilian production at stable prices of the kind which is essential to give total supply a chance to come into balance with urgent demand.

There is solid ground to hope that, by following this course which I have outlined, we will be out of the woods of *extreme* inflationary danger by the end of 1946. If this happens, controls can be lifted generally by June 30, 1947, in all but the areas of acute shortage.

I state this only as a hope and expectation. I wish I could give you a firm assurance that the expectation will come true. I cannot. And I do not apologize for being unable to do so. Neither I nor anyone else has a crystal globe that tells the future course of complex economic events in this unsettled postwar world.

Apart from questions which depend upon the decision of Congress on this bill, there are obvious uncertainties which make definite prediction impossible.

We have no measure of unsatisfied consumer needs.

We do not know how long consumers will continue to spend the present high proportion of current income.

We have no exact measure of the inventory requirements of manufacturers and distributors, and none at all of what they will regard as reasonable requirements.

We cannot foresee the exact rate or patterns of production.

We can be confident that businessmen, farmers and industrial workers will respond to the urgent need for production, but we cannot tell with assurance what the strength of the response will be.

We are in the midst of a coal strike the duration and outcome of which we cannot predict. We do not know the duration of other pending stoppages of production nor what stoppages will occur in the future.

We have not yet gauged the effect upon our own economy of discharging our obvious obligation as a nation to help feed the starving millions abroad. Our estimates of world food supplies were upset by last season's short crops in other countries. Obviously, we do not know what this year's crop is going to be, either in this country or abroad.

These are only examples of uncertainties and contingencies which might confound our best guesses.

We cannot determine in advance by Act of Congress or otherwise, the date on which supply will come into balance with demand and the need for these emergency controls will be gone. To attempt to fix the exact date in advance is to take at least the chance of making a bad guess and at worse the chance of disabling the nation from protecting itself against economic disaster.

Although we cannot tell the time-table of events, we *can* tell their general direction and destination, assuming reasonable stability in the economy. The current rate of production gives us solid assurance that, assuming this stability, supply will move steadily and rapidly toward a balance with urgent demand.

Many of the most pressing needs of buyers are already being satisfied as production continues.

We know beyond doubt that the proportion of production which takes the form of finished consumer goods will steadily and surely increase. What goes in the pipeline must come out. The military take from the production we secure will steadily decrease.

Still assuming reasonable stability, we know also that total production will steadily increase. As demobilization continues, more workers will be added to the labor force. Labor productivity will rise as it always has after a war. Both capacity and output will expand as the organization of production improves, as new plants and facilities are added, as bottlenecks are eliminated by the building up of adequate inventories, and as the flow of materials and finished products assumes more normal relationships.

In the stable economy which we seek these developments are certain and dependable. Only their timing is in doubt.

Choice Three:
An Effort to Compromise

The third and last of the main alternatives before us is an inviting one on the surface.

Those who urge this course of action have the realism to recognize that the lifting of all price and wage controls is not a practical possibility at this time but only a pipe-dream of wishful thinkers. What they propose is a compromise—keep the controls a while longer, but relax them in order to get rid of the irritations and headaches that go with them.

A great variety of plans for doing this will be urged upon you in the next few weeks. Here, for example, are a few of the proposals that have already been advanced:

Raise the parity standard so as to provide a basis for wide-scale increases in farm prices, even at the cost of a 15% increase in the consumer's food bill.

Jump food prices 8½% by dropping all food subsidies right away, or force the subsidies to be dropped according to a rigid schedule, regardless of whether the stabilization program can absorb the shock of the resulting price increases.

Prevent the stabilization of cotton prices and let textile and clothing prices escalate upward as speculators bid up the price of raw cotton.

Require price ceilings to yield a profit to every producer in every product or to every industry on every product.

Raise the profit floors that industry price ceilings are required to protect.

Give clothing manufacturers a license to concentrate their production on high-priced, long-margin lines.

Raise hotel rates 10%.

Raise rents 5%, 10% or 15%.

Require price ceilings to reflect pre-war unit profit margins in all cases, regardless of huge increases in volume.

Abolish cost absorption altogether, or abolish it for some or all retailers for six months.

Write a decontrol standard into the law which will assure that price ceilings will be taken off while there is still a chance for prices to go up.

This is not the occasion to try to analyze the precise effect of each of these proposals or of similar proposals. If the Committee wishes such analysis of any particular proposal, I shall be glad to furnish it. My purpose here is only to make some general comments upon what is involved, from the point of view of stabilization as a whole, in proposals of this type.

Some of the proposals would make continued stabilization flatly impossible. Revision of the parity standard or abolition of cost absorption are examples. Others *might* or *might not* tip the balance toward inflation.

All of the proposals which would involve any considerable unsettling of prices would certainly *jeopardize* our ability to prevent inflation, and at the least postpone the time when the controls can be safely removed.

Congress has the responsibility of deciding whether the advantages of making any of these changes in the law, whatever the advantages be, are worth the risks. My responsibility is to give clear and unmistakable warning of what in my judgment the risks are.

As I read and hear of these proposals, they seem to me to be based on a genuine misunderstanding of the country's position. All the proposals assume that the present stabilization balance has a solidity which in fact it does not have. They are made out of an impression of safety which is an illusion. If we put aside that illusion and look at the facts, it becomes apparent that these suggestions of relaxation in the laws involve risks which even their proponents would not wish to take with their eyes open.

Two things only are needed to appreciate these risks: a clear view of the tenseness of the present situation; and a realization of the explosive possibilities, in the midst of this tension, of a decision by Congress that price and rent controls should now be loosened.

Let us review briefly the factors in the present situation which create the tension.

The pressures on almost all price ceilings, as I have pointed out, are strong and in many cases tremendous.

Partly these are pressures of demand. We thought these pressures would ease for a while after V-J Day but they did not. The extraordinary increase in consumer expenditures has kept them up.

Partly also the pressures come from costs. The transition bulge in production costs has not yet subsided. As volume production is attained; as labor productivity improves; as temporary elements in labor costs, such as overtime, disappears; as parts and materials once again become available from normal sources and in steady supply, these costs will inevitably go down. Until they do, however, business is naturally uneasy.

With pressures high, very few prices have softened since V-J Day. As a result, the increases in price ceilings which have been allowed since then have caused a net increase in the general level of prices. The index of wholesale prices has gone gradually but steadily up. Only because egg prices softened were we able to keep the cost of living substantially even.

Further price increases are in prospect on some commodities—and in the immediate future not much softening of prices on others. As I have said, the price increases we can see ahead will not by themselves upset our stability, or even threaten to do so. On top of the steady rise in the general level of prices, however, they do definitely narrow our margin of safety.

This steady rise in prices is the background of the most dangerous factor of all. We must face the blunt fact that the country is showing signs of inflation jitters. Everywhere men and women are beginning to bet on inflation. We can see the consequences most clearly in the markets where prices are uncontrolled—in the stock market, the real estate market, and the cotton exchange. The expectation of rising prices is abroad and the contagion of speculation is spreading.

In this situation we have to ask ourselves what the effect would be if Congress were to legislate additional price increases now.

It is no overstatement, I think, to say that the effect on the morale of stabilization would be devastating. This effect would carry far beyond the particular price increases which Congress legislated.

Stabilization is, in every sense of the word, a common enterprise of the American people. Its success depends upon general recognition of a common danger by all economic groups and the fair and uniform application of the controls to all of them.

A decision by Congress that price controls should be relaxed in favor of one or more special groups would undermine the basis for a firm policy as to others.

A decision by Congress that price controls should be relaxed *generally* would amount to a denial that any serious common danger does exist and thus put in question the basis for the program as a whole.

Either decision would encourage new and more insistent demands upon OPA for price increases. The weight of either decision would break down the will as well as the ability of the agency to resist the demands effectively.

Let me repeat: *During the next crucial months of intense inflationary pressures, prices must be held firmly or we will be started up the wage-price spiral with the lines of retreat blocked.*

Another round of wage rate increases before they have been justified by increased productivity and lowered costs, would have a disastrous effect upon the general price level.

Any substantial increase in the cost of living during the rest of this year would build up unbearable pressures on wages. A decision by Congress to relax price controls at this time, and a serious upward movement of prices following that decision, would take away the basis for resisting those pressures.

Even more dangerous than these relatively slow-moving pressures would be the instant effect of a decision to relax controls upon the psychology of inflation.

The decision would tell people that prices are going up, and the only question would be how fast and how much. Those who have goods would keep them to see. Those who have not would try to buy as much and as fast as they could. Speculative withholding of parts and materials would slow down production. The multiplication of orders in anticipation of higher prices, the building up of excessive inventories, the growth of speculative trades between middlemen, the withholding of finished goods from consumers—taken in combination with a production slow-down—would destroy our hopes of an early balance between supply and demand and threaten a breakdown of controls.

No half-hearted extension of the stabilization laws will be sufficient to remove this danger. Buyers and sellers everywhere will study the action of Congress on this bill and the continued ability of the stabilization agencies to do their job under it in the light of hard realities. Only determined and unequivocal action will stand up under this scrutiny, in the present state of inflation jitters, and carry the conviction of stability.

It often seems to be assumed that a runaway inflation cannot take place as long as the stabilization laws are on the books and a framework of price control is maintained. No belief could be more unfounded or more dangerous.

The developments I have described, if they occurred, would generate enormous pressures on top of those the stabilization agencies are already resisting. I know of no basis for assuming that new pressures of this magnitude could be resisted successfully.

Exactly where the breaking point in the stabilization line is neither I nor anyone else can say. Nor is there any means of calculating just how much pressure on the line any particular relaxation in the law would develop.

Unless I completely misjudge the position, however, we have too much to lose and too little to gain to warrant the risks that would be involved in any one of these price-raising amendments.

What we have to gain from any weakening of the laws is at most a temporary advantage, or an easing of temporary restrictions, for a relatively small group of sellers. What we have to lose is a stable and prosperous economy and our hopes for a stable and prosperous future.

The policy of stabilization has carried us successfully through more than three and a half years of war and eight months of peace. Past experience and present production give us solid assurance that if we adhere to this policy we shall be moving by next fall or winter steadily and surely out of danger.

To legislate further price increases now would be to put this prospect in jeopardy and perhaps to lose it. In the months to come, instead of stability, continued prosperity and growing confidence that inflation will be definitely and finally licked, we would have instability, increasing hardship from higher living costs and fear that inflation is finally going to get the better of us.

The American people are entitled to expect that they will not be subjected to these risks for the benefit only of minorities greedy to cash in on the opportunities created by the common disaster and sacrifice of war.

Congress has steadfastly adhered to the principle of stabilization. Through more than four difficult years and in the face of heavy pressure from special interest groups its wisdom and firmness have borne fruit in a stable economy which contributed to the winning of the war and has already laid the foundation for the winning of the peace.

In deciding the issue before it today Congress carries an enormous responsibility. On its decision may well depend the future prosperity of our people and the health of our free enterprise system.

With the facts of our present position before it, I am confident that Congress will continue to be wise and firm and will extend for the benefit of the American people as a whole the full measure of protection of the stabilization laws.

Let's Understand Russia

(Continued from page 2084)

often been used against the Soviet Union. But, I have never heard that the Soviet Union has engaged in oppressive activities toward any of the innumerable racial minorities within its borders.

There are those who allege that Soviet principles fail to recognize the rights of individuals. But the facts will not reveal even one case throughout the whole length and breadth of that vast country where any individual has been lynched because of the color of his skin.

The land of the Soviets deserves fair recognition throughout the world for its historic achievements in promoting tolerance and eradicating prejudice.

Our effort in America should always be to excel that of any other country in the world.

The hope of all Americans should be to be able to face the other nations of the world serene in the knowledge that our record is untarnished.

But, we cannot escape the sad fact that intolerance and prejudice are still widespread throughout these United States. This is a fact which cannot be hidden. We must face it squarely if we are to overcome our deficiencies and assume a position of moral leadership in the world.

At home, we still find rampant prejudice toward every minority group—toward Catholics, toward Negroes, toward Jews, toward Italians, toward Filipinos, and others.

Even elected representatives of the people are often victims of intolerance when they seek to do something for the welfare of the people. At times, this racial and religious prejudice is dormant, and manifests itself only in silent ill-feelings. At other times, it breaks out into the open—and endangers the peace of our countries.

In our relations with other Nations, there seems to be a growing spirit of intolerance toward the Soviet Union. Scare headlines magnify and distort every move of Russian troops, every Russian statement in world diplomacy, every new political development in the European countries that border upon Russia.

Intolerance, my friends, is based upon ignorance. To cure intolerance, we need knowledge and understanding.

At home, we must leave no stone unturned in the endeavor to provide all the people of our country with more knowledge and more understanding of minority groups—whether they be Negroes, Jews or Catholics.

Achieve a Better Knowledge of Russians

As for Russia, it is imperative that we do everything in our power to achieve more widespread knowledge concerning the Russian people, and a deeper understanding of Russian ideals and achievements.

I have often been asked, "What is the single most important problem in international relations? What is the single problem that has the greatest significance for the future peace of the world?"

My friends, I believe that all of us here tonight know that World Problem Number One is whether Communist Russia and Capitalist America can live peacefully side by side.

Our two economic systems, of course, are entirely different.

In America, our economy is based upon the profit motive and private ownership of the means of production. The great majority of Americans want this system to continue. Under it, we have made greater advances than have ever been accomplished in any other part of the world. Of course, we would like to see still further improvements under our system. We would also like to see it improved upon so that it would work still more equitable for the welfare of the masses of our people.

Russia's Planned Economy

The Russians, on the other hand, have a planned economy based upon government ownership of the basic means of production and the elimination of capitalist enterprise. There is no reason for us to quarrel with the Russian people merely because their way of life is different than ours. That is an antipathy which more than anything else contributed to light the fires of war in Europe which all but destroyed the continent.

In Russia, there are some who believe in what is called the "capitalist encirclement" of Russia. They cannot forget that at the end of World War I, Russian soil was invaded by the troops of all the major capitalist countries. They are convinced that today capitalist monopolies in the United States and England are bitterly opposed to the continuation of the Soviet system in Russia. That, of course, is a mistaken conviction.

In America, there is an extremely vocal and rather influential minority who seem to be convinced that Russia represents a direct threat to our way of life.

There are people both here and in other capitalist countries who always hoped that Hitler would destroy the Russians because of their fear of the Russian political system.

My friends, both of these approaches give rise to fear and hostility. Both of them lead in the direction of war. Both of them must be rejected.

In the Soviet Union, there must be more understanding of the fact that progressive capitalism has nothing to fear from Russia, and can have no motive for attempting to "encircle" Russia or undermine the Russian system in any way whatsoever.

In America, we must move forward with vision and courage to bring into being those very social reforms—health insurance, social security, low rent housing, improved minimum wages, river valley authorities, and similar programs—which justify and uphold our capitalistic democracy.

A New Orientation of Foreign Policy

Above all, we need a new orientation of American foreign policy. We need an American foreign policy that is based upon the principles on which our country was founded, on the ideals for which our soldiers and sailors have fought, and upon the practical realities of the atomic age.

Let me list seven points which, in my opinion and in the opinion of some of my colleagues in the Senate, should guide us in the conduct of our foreign affairs.

First, it must be America's aim within the framework of the United Nations Organization to maintain continuous working relationships with the other great powers and to achieve in peacetime that same unity of action between the great powers which gave us Victory in war. The United Nations Organization cannot serve as a substitute for continuous roundtable discussions on a day-to-day basis between America, the Soviet Union and Great Britain, or for regular meetings between President Truman, Marshal Stalin and Prime Minister Attlee.

Second, it must be our firm and unshakeable determination never to let Germany and Japan regain their military potential. We must turn a deaf ear to the siren songs of those who want Germany and Japan rebuilt.

Third, it must be our policy that colonial countries should either be made independent or transferred to international control under the Trusteeship Council of the United Nations Organization. We can no longer afford to close our eyes with respect to the oppressed peoples of India, Asia and the Middle East.

Fourth, we must not sanction the continuation of the present race for military bases, which is every bit as dangerous as a full-fledged armament race.

Fifth, it must be our policy to help provide, rather than merely talk about, equal access among nations to the critical raw materials of the earth.

Sixth, we should assume moral leadership in working toward genuine international control of atomic power. We must not attempt to use our atomic resources as a Big Stick with which to browbeat the rest of the world.

Seventh, we must move more rapidly toward the development of full economic collaboration among nations. At the coming world conference on trade and employment, we should propose that every nation commit itself to the maintenance of full employment within its own borders without resort to measures that create unemployment in other countries.

A foreign policy developed along these lines would be a truly democratic policy. It would effectively advance the interests of all our people. It would be consistent with American traditions. It would give voice to the aspirations of the average citizen in every city, town and rural area of our country. It would provide a granite foundation upon which to build the edifice of the United Nations Organization.

Finally, a truly democratic foreign policy such as I have outlined would once and for all solve the great problem as to whether or not nations with differing economic and political systems can live peacefully together side by side. Within the framework of such a policy, we can work hand and hand with the Soviet Union in rebuilding the countries devastated by the war, in promoting world trade, in raising standards of living, and in overcoming prejudice and intolerance wherever they may arise.

The activities of the American Birobidjan Committee are an important element in this picture. As the relationships between America and Russia become more intimate and more friendly, the American Birobidjan Committee will be able to set for itself even higher goals, and its work will become increasingly effective.

And by working together with Russia on Birobidjan, we can all help to develop that mutual understanding between the American people and the Russian people which is so essential to the realization of mankind's hopes for a just and durable peace.

Merrill Lynch Offer Eaton Mfg. Shares

An underwriting group headed by Merrill Lynch, Pierce, Fenner & Beane offered April 16 to the public 11,518 shares of common stock of Eaton Manufacturing Co. at 62⅝ a share. The offering represented the unsubscribed portion of an issue of 178,364 shares of additional common stock which was offered to common shareholders of record March 26, last, at $54 a share at the rate of one additional share for each four shares held. The rights expired at noon April 13.

Net proceeds from the sale of these additional shares will be added to the company's general corporate funds to be used to reimburse the company for past and future expenditures. Expenditures during 1945 and 1946 for expansion and modernization of plants and facilities are estimated at $8,255,000, of which $1,984,539 was spent to February 1, 1946.

Monetary Reconstruction In Continental Europe

(Continued from page 2071)

of its prewar value. Monetary conditions in Greece, where hyper-inflation reminiscent of the German experience following the First World War culminated in November, 1944, in the issue of a new currency at the rate of 50 billion old drachmas to 1 new drachma, are again characterized by "a flight from the currency" into goods. Currency in circulation in Rumania has passed the 1 trillion lei mark.

The Causes of European Inflation

The causes of inflation in Europe are familiar and require little elaboration. To a considerable extent, basic conditions for a rapid upsurge of prices were generated by central bank financing of Nazi Germany's exactions from occupied Europe. Allied military expenditures for goods and services in liberated nations injected additional amounts of liquid funds into the monetary stream. The money supply of neutral countries expanded primarily as a result of large purchases—sometimes of a preemptive nature—by the warring nations. Some of the belligerents in Europe financed war expenditures mainly by the printing press and by the creation of bank credit. Yet, despite large increases in money incomes, inflationary price movements assumed large proportions only toward the end of the war when widespread physical destruction and the breakdown of the European transportation system, consequent to large-scale fighting on the Continent, aggravated supply shortages. Following the cessation of hostilities, moreover, administrative chaos and relaxation of wartime controls encouraged a large amount of dissaving which was reflected in a new wave of price increases. The depletion of the commodity supplies of the former Axis satellites in Eastern Europe, as a result of reparation deliveries, played a major part in the acceleration of inflation in the areas concerned.

Wartime Price Controls

On the whole, wartime price controls achieved a high degree of efficiency and were instrumental in diverting excess consumer income into monetary hoards. In Great Britain, Germany, and to a lesser extent in some of the neutral nations, inflation, in the traditional sense of the word, did not occur to any appreciable extent despite a huge increase in the amount of cash and bank deposits held by the public. Effective demand and available supplies in these countries were equated by rationing rather than by runaway prices. In most of Europe the wartime increase in the supply of money outstripped the rise in prices—in sharp contrast to the experience during the First World War when the expansion in the note issue and bank deposits was fully reflected in the price level.

The Continent's Acute Monetary Problems

There is little that the student of Europe's financial maladies can learn from the current discussions of the inflationary potential in this country. The continent's monetary problems are far more acute and of much greater magnitude than those of the United States, where hope for an abatement of inflationary pressures rests on the prospect for budgetary equilibrium and full use of the country's vastly expanded capacity to produce civilian goods. Few countries in Europe may look forward to revenue receipts sufficient to cover the most urgent government outlay, and fewer yet to a flow of consumer goods of a size adequate to equilibrate supply and demand at reasonable price levels. While this country has added substantially to its material wealth, the industrial potential of the countries ravaged by war has been greatly impaired, if not almost entirely destroyed. Large parts of Europe are facing huge reconstruction tasks which will tend to create high levels of monetary income without, however, a parallel increase in the production of consumer goods. For this reason alone, European governments, if they wish to prevent steadily increasing prices, will continue to be confronted with the wartime problem of reducing consumer expenditures to a level that corresponds to the value (at stable prices) of available consumption goods and services. Heavy taxation, strict rationing and priorities will probably remain an integral part of the European economic scene for a considerable time to come.

Steps to Contract the Money Supply

The numerous schemes for a sharp contraction of the money supply, which were put into operation in recent months, testify to the fact that European governments do not view with equanimity the existence of huge and uncontrolled liquid funds in their monetary structure. While differing in detail from country to country, these reform programs ordinarily provide for the withdrawal of practically all outstanding currency, the issue (subject to statutory conditions) of limited amounts of an entirely new currency, and the temporary or permanent freezing of all or part of the withdrawn currency and of bank deposits existing immediately prior to the execution of the relative decrees. Measures of this type have been carried out (in time sequence) in Belgium, Yugoslavia, Denmark, Norway, Holland, Czechoslovakia, Austria, and Finland. Apart from exerting a restraining influence on the spending rate of the public, these schemes had numerous subsidiary purposes, such as making the public dependent on earnings instead of savings and depriving it of the ready cash which can be used for feeding black markets. The detection of concealed wealth and of tax evasion, the determination of the currency amount lost or destroyed, and cancellation of notes acquired by the enemy were other important objectives.

Finland's Currency Reform

Several monetary measures of unusual interest, enacted in the course of the past year, have—unlike the Belgian and Dutch experiment—received relatively little attention in this country. Finland's currency reform, for instance, though a relatively mild measure, is worth mentioning because of the unusual technique employed in its execution. A decree passed by the Finnish Parliament on Dec. 29 provided that all bank notes in 5,000, 1,000 and 500 finmark denominations were to be cut in two. From Jan. 1, 1946, on, only the left half of the bank notes retained its legal tender quality to the extent of one-half the value of the original note. The right-hand pieces of each note were converted into a 2% compulsory government loan, to be refunded by 1949.

Austria

The distinctive feature of Austria's currency reform law of Nov. 30, 1945, providing for the withdrawal of all currency in denominations of over 5 reichsmarks or 5 Allied military schillings, is the sharp differentiation between pre- and post-liberation deposits. While the former are available to their owners only in limited amounts upon proof of necessity, withdrawals from funds deposited since liberation and prior to the announcement of the decree were permitted up to 40% of the Nov. 30 balance, and in excess of that amount if the owner was unable for specified reasons to support himself.

Yugoslavia

Yugoslavia's monetary reform program stands out in that it combined the withdrawal of cash holdings and the freezing of deposits with a drastic capital levy on monetary wealth. At the time of the country's currency reform in April, 1945, each person received no more than 5,000 new dinars upon surrender of the currencies introduced in the country following its dismemberment in April, 1941. The balance of currency holdings was blocked for a period of three months, during which all bank deposits, except those of certain public organizations, became subject to a sharply progressive tax with different rates for various classes of owners.

Norway

The Norwegian currency reform decree of Sept. 5, 1945, called for the withdrawal of all notes of 5 kroner and over. Depositors received an initial grant of 100 kroner to tide them over the conversion period; 40% of the deposits in excess of this amount were blocked in an interest-bearing account, and 60 per cent, but not more than 5,000 kroner, were made immediately available. The Norwegian decree differs from similar measures in that its blocking provision drew a distinction between demand deposits and time deposits. While the former were freely available up to 800 kroner, plus 30% of the remainder, savings deposits and deposits requiring six months' notice before withdrawal were released only to the extent of 800 kroner, or 10% of the deposits, but not more than 10,000 kroner.

Czechoslovakia

Czechoslovakia's currency conversion decree of October 19, 1945, represents one of the most radical measures of its kind. Practically every type of currency was withdrawn. Individuals received no more than 500 crowns, while businessmen and corporations were permitted to draw in cash no more than the equivalent of their payroll for one month. Certain additional amounts were released to business, if required for legitimate purposes. Otherwise all deposits were blocked. The extension of special withdrawal privileges to employers reflects the desire of the Czech authorities to avoid deflationary phenomena of undesirable dimensions which made their appearance in some countries where, as a result of an overly rigid blocking procedure, business was deprived of its working capital.

While it is yet too early to pass final judgment on the over-all effects of currency reform in Europe, certain tentative conclusions may be drawn at this point from the monetary experience of a few of the countries under review. With certain qualifications it may be said that the Belgian, Dutch, Danish, and Norwegian reform programs, at least in their early stages, have achieved a considerable measure of success. The blocking of their money supply may have been too rigid during some phases of the contraction program and, at other stages, too loose to reduce spending power to a level equal to the value of available supplies at ceiling prices. Rationing and other controls have by no means become redundant. But inflationary price developments were held in check and black-market prices declined precipitously. The registration of cash holdings has furnished fiscal authorities with useful data for checking tax evasions and the preparation of capital levies. It is true, however, that improvements of the basic supply situation have been at least of equal importance to financial recovery. And the final success of the currency reform program will depend on sufficiently close monetary and fiscal controls.

Currency Reflation

The process of currency reflation in these countries has been quite rapid. In Belgium currency in circulation rose from 41 billion francs at the end of 1944 to 73.2 billion in the middle of March, 1946. In the Netherlands, the note circulation increased from 1.1 billion guilders in October, 1945, to almost 2.2 billion at the beginning of April. Prior to the announcement of the currency exchange, the note circulation of the Nederlandsche Bank was approximately 3.1 billion guilders. In Denmark, currency holdings are close to their wartime high after they had been halved. In Norway, currency in circulation rose from 890 million crowns immediately after the currency conversion in September, 1945, to 1.4 billion in February, 1946. Substantial though these increases are, and while they may reflect to some extent overexpansionary credit policies, not too much importance should be attached to them. The larger part of the currency reinfiltration process occurred during a period of rising economic activity and resulted from the greater currency needs of the public at the prevailing level of prices and wages. The desire for holding relatively large precautionary balances, a habit carried over from the wartime period, may also have been a factor in the currency expansion.

Unblocking Bank Deposits

That the governments of these countries feel quite certain that their reform measures have achieved their primary purpose can be inferred from their willingness to relax the blocking of bank deposits. In Belgium, where all blocked currency and deposits had been divided into two portions, one to be "temporarily unavailable" and one to be "permanently blocked," the first general deblocking measure was taken in June, 1945, when the funds held by depositors, who on Oct. 6, 1944, owned less than 15,000 francs in currency and bank deposits, were entirely released. In December, 1945, 25% of the remaining temporarily blocked funds were defrosted. The "permanently blocked" portion of bank deposits was transferred to the Belgian Treasury which in turn issued to the original owners bonds carrying an interest rate of 3.5%. These bonds are non-marketable and can only be transferred for the purpose of payment of the extraordinary taxes which were imposed late in 1945. In the Netherlands, on Jan. 2, 1946, bank deposits up to an amount of 10,000 guilders, which until then could only be used for transfer from one account to another, became freely available. Since that date, blocked deposits may also be used for subscription to 50-year Government bonds, which for the time being are not marketable, and to a limited extent for the purchase of 5-year savings certificates. Norway, in November, 1945, deblocked all time and savings deposits and a substantial part of frozen demand deposits.

German Situation Alarming

The monetary situation of several Continental countries gives ample cause for alarm. In Germany, where during the war years price control was enforced in a more effective manner than anywhere else in Europe and where consequently, the accumulation of unspendable funds was particularly marked, monetary conditions have greatly deteriorated in recent months. There is a general tendency to convert currency, wherever possible, into tangible goods. Cigarettes and watches, rather than money, are used for the purpose of storing wealth. Barter is on the increase and practically all commodities, except those available against ration cards, are sold at a large multiple of their prewar value. Reliable estimates of the proportion of current production diverted into black markets are impossible to obtain, but according to most observers a not inconsiderable amount does not reach legal markets. The Russians do not appear to have shown much interest in combating price increases. In fact, in the Russian occupation zone, a "free" market is officially tolerated, being considered a desirable incentive for production increases.

There are several reasons for the spread of monetary disturbances in Germany. Of major importance are rumors spreading throughout Germany of Allied currency reform plans. Moreover, industrial production has been exceedingly slow to recover. Regional and local governments are operating on a deficit. The influx of Allied currency continues on a large scale. Consequently, monetary income is substantially in excess of the aggregate value of goods on sale, and the gap between the supply of goods and the plethora of liquid funds in quest for outlets is being widened rather than narrowed.

The existence of large currency hoards and monetary uncertainty acts as a drag on the recovery of the German economy and is an obstacle to plans for economic reconstruction. People holding substantial amounts of cash prefer to live in idleness rather than accept poorly paid jobs which yield earnings sufficient to buy the official rations but not to permit black market purchases. In view of the uncertainty as to the future value of the currency, moreover, manufacturers are holding back production because they do not want to exchange their stocks of raw materials, etc., for money likely to depreciate.

Monetary reform in Germany is a highly complex issue in view of the considerable differences in monetary conditions in the Russian and Western occupation zones. While in Western Germany practically all banks continue to operate—by and large—without any withdrawal restrictions, all bank deposits in the Russian zone, existing as of May, 1945, have been eliminated in one single stroke, but deposits made under the occupation regime in newly established state, provincial, county, and municipal banks are not subject to blocking and are, in fact, growing at an increasing rate. There is little doubt that the Russian solution, though exceedingly painful, has eliminated excessive liquidity in the business world which, in the Russian zone, has become dependent upon credits for its operations. Credit policy in the Russian zone has thus greater scope and exercises greater influence on the direction of economic activity than in Western Germany where business within certain limits can still fall back on its old liquid reserves.

In most of Southeastern Europe monetary expansion during the war period, unlike in other parts of the Continent, was fully reflected in the price level. Rationing and other control measures have proved largely ineffective. Economically this area is characterized chiefly by small farm units, while politically it is featured by the lack of a strong enough governmental organization to enforce such restraints on inflationary price movements as have been introduced. Nowhere in Europe has inflation proceeded as far as in Rumania, Greece, and especially in Hungary, where prices have risen to an enormous multiple of their prewar level.

Hyperinflation in Hungary

In the latter country, monetary conditions actually exhibit all the phenomena associated with an advanced phase of hyperinflation. The population is unwilling to retain any part of its money receipts and practically the whole money stock is in constant circulation. Government expenditures are almost entirely met from advances by the National Bank. The increase, in terms of pengoe, of foreign exchange rates is outstripping price increases for commodities. The real value of the total monetary stock is continuously decreasing.

In a desperate effort to check inflation, the Hungarian Government, in December, 1945, resorted to a drastic and unusual, but completely futile, currency contraction scheme. Under a decree issued on Dec. 19 all notes in denominations of 1,000 pengoe and over had to have adhesive stamps affixed in order to retain their value. Since the stamps were sold by the Government at three times the value of the note to be stamped, the measure, which closely resembled a confiscatory capital levy on monetary wealth, wiped out in one single blow 75% of the nominal value of the currency stock existing at the time of the issue of the decree. Bank balances, claims, and debts, as well as wages, and salaries, were unaffected by the measure. Unstamped notes remained legal tender at 25% of their face value until Dec. 31.

Despite its rigorousness, the scheme failed entirely to achieve its objective of stopping the onslaught of inflation. For several days prior to the announcement of the decree, rumors concerning its impending issue were spreading among the public. This time interval gave everybody sufficient opportunity to use every conceivable means to evade the decree. The first reaction of the public was to deposit currency with the banks and to purchase goods, the easiest method of tax avoidance. Sellers of goods protected themselves against loss on their currency receipts by a three-fold increase in prices. On Dec. 19 the contraction of the currency amount to 25% of its former value began to make itself felt on the price level, but the subsequent decline in prices did not wipe out, to any considerable extent, the preceding rise. Within a few days, prices began to reverse their decline and within a week inflation was again in full swing. On Dec. 31, the note circulation reached approximately the same level as immediately prior to the date on which the decree became effective.

Another interesting device recently introduced in Hungary is the so-called "Tax Pengoe," a standard of value established on Jan. 2, 1946. Taxes, though assessed in paper pengoe, must now be paid at the prevailing rate for tax pengoes on the date of payment. This measure does not attack the basic causes of inflation. but it may be instrumental in increasing tax revenues which, late in 1945, were approaching zero As of April 4, the value of the tax pengoe was fixed at 34 paper pengoe, reflecting a depreciation of Hungary's currency within 3 months to one thirty-fourth of its value at the beginning of the year.

Rumania's monetary position is approaching a crisis, and hyperinflation, on the Hungarian model is a distinct possibility. At least one half of the government's revenue needs are financed by the National Bank. At the end of 1945 the note circulation in Rumania amounted to about 1,212 billion lei, which compares with 356 billions at the end of 1944. Rumania's financial position is, however, not entirely hopeless in view of the country's huge gold stock, part of which may be employed to the advantage of the country's economic rehabilitation as soon as foreign commerce improves.

Both Bulgaria and Yugoslavia are still a long way from financial stability. Monetary reconstruction in the Balkan countries will depend less on the early execution of currency reform schemes of the kind employed in other parts of Europe than on rebuilding of plant and equipment, the improvement of transportation, the solution of problems of economic organization, and other nonmonetary conditions.

Silver Munich Ahead?

(Continued from page 2082)

McCarran has asked to have 61 more witnesses heard. Evidently, the consumers have less strength in the Committee than they thought some time ago. Once the subcommittee acts, the full Appropriations Committee will offer another hurdle—unless there is definite agreement on a price compromise.

Senator Green states: "I am still hopeful of getting the rider through. The delaying tactics of the Mining Bloc have been very harmful not only to industry, but to the whole country."

Meanwhile Senator McCarran sticks to his bill with the ultimate $1.29 proviso. In the bill he also seeks to get repealed the tax feature of the Silver Purchase Act of 1934. That feature stands in the way of a resumption of silver trading on the Commodity Exchange, Inc. Its repeal is being sought in Washington by Handy and Harman, silver dealers and manufacturers. Supporters of the silver tax repeal have told McCarran that resumption of New York trading is the surest way to bring about a $1.29 price. Without abandoning his efforts for a higher statutory price, McCarran is willing to try the New York approach as well.

Industrial interests fear the two-stage price increase proposed by McCarran, lest hoarders be encouraged to syphon silver into hoards in anticipation of the maximum price. This would create an industrial shortage, which is just what they want to avoid. They are thinking of the situation of 1933 and 1934, as reflected in a Treasury-prepared Senate document, "List of Silver Hoarders."

Industrial silver interests have been very active over recent months in Washington and around the country, seeking to get the Green Act reinstated. Their efforts until just recently largely have avoided publicity, being confined to quiet pressure on members of the Congress and discussions with mining representatives. To date this approach has failed to produce the expected solution. The situation grows steadily more urgent and they may have to reach a quick settlement with their better entrenched opponents in the Senate. Indeed, this seems to have been recognized in an industry "War Council" held in New York less than a month ago. Departmental acquiescence to a Senate deal for higher silver price is certain.

The situation being critical, it is no longer a question of appeasement, but of how much appeasement. There may be a silver "peace in our time," but after that, what?

Trowbridge Opens Office

(Special to THE FINANCIAL CHRONICLE)

BATTLE CREEK, MICH.—William Scott Trowbridge has opened offices in the Michigan National Bank Building to engage in the securities business. He has recently been with Moreland & Co. In the past he conducted his own firm in Battle Creek.

Price Control and the Trading Load

(Continued from page 2071)

The other is the Benquet stock under discussion which was a private transaction involving risk.

Allen & Company, the designated underwriters, had purchased the securities on a sliding scale up to a price of $2.10 per share. In a preliminary memorandum, the Securities Division of Ohio decided that the offering price of $4 a share would give to Allen & Company an "unconscionable profit spread."

It further decided that "the proposed offer is upon grossly unfair terms and should be withdrawn from this division or otherwise denied."

The offering was in fact withdrawn without prejudice.

This brings us into the region of our pet peeve, the attempt by regulatory bodies in the securities field to control spreads and profits.

Recent history of this effort is not without significance.

The Securities and Exchange Commission espoused its philosophy of the control of spreads and profits by proffering the principle that sales by dealers must be reasonably related to the market price.

Implementing this principle was not simple because in many instances as to over-the-counter trading, establishing a market price presented numerous stumbling blocks.

The quotation sheets which did not show any sales were subject to the objection that they were no proof of the market price.

Then there was some attempt to relate the dealer's selling price to his purchase price. This presented the problem of giving effect to the risk that had been assumed by the dealer by virtue of the position he had taken, particularly where the securities he offered and sold were part of his standing inventory.

The National Association of Securities Dealers came along with its 5% spread interpretation wherein the taking of more than 5% put a member on the defensive and made it mandatory for him to explain the transaction.

When the Securities Dealers Committee put this interpretation to the test, the SEC held in effect that the mere size of a spread or profit did not constitute any wrongdoing, that the firm which took it was not placed upon the defensive, but that anybody charging wrong-doing had the burden of proof.

Up to this point the dealers in securities were up in arms.

The Benguet case places underwriters and offerers in pretty much the same position.

Editorially, we have unremittingly opposed attempts to control spreads and profits.

We have taken the position that such controls are not properly within the domain of the regulatory securities bodies. We have advocated legislation prohibiting the regulatory bodies from delving into these fields.

For the cheat and the fraud and for him who misrepresents, we haven't the slightest use.

Dishonestly must be brought to justice.

However, there are ample teeth in existing laws to realize this without treating the securities field as a stepchild.

The public is no more blind in its securities transactions than it is in its commodity transactions. Attempting to treat investors as if they hadn't come of age evidences stupid ignorance of the facts.

The underwriters' load of doing business is becoming ever more burdensome. Public offerings contain ever-increasing restrictive requirements and the Benguet attempt to control profits is about the last straw.

Not only SEC rules and regulations must be met, but also those in the various States.

It is high time that there was uniformity of laws in the securities field.

We do not suggest that any State yield up its sovereignty in the making of such laws. That would be a mistake.

We do suggest, however, that the various authorities get together and attempt to effect uniform legislation.

We advocate a uniform law throughout the country providing that in the absence of fraud or any other wrongdoing in connection with the sale of securities no administrative body may control spreads and profits.

It is our thought that regulatory bodies are not intended to be guarantors of the investments of the public.

Each investor may judge of his own portfolio and if with knowledge of the facts he wishes to purchase a percentage of speculative securities it is within his right to do so.

Margins of spread and of profit are based upon many factors and one of them is the public demand. Interference with the free flow of such a margin constitutes a public disservice, because it places obstacles in the way of market liquidity and discourages venture capital.

New Issues -- Realism or Theory?

(Continued from page 2071)

today. The people that have bought some of these new issues did not even know what they were buying—PROSPECTUSES TO THE CONTRARY NOTWITHSTANDING. They only heard that a certain new issue was "a buy" and thus their speculative appetite was whetted.

Some of the complaints from the public to the effect that they couldn't get in on a certain offering, have emanated from "soreheads" who had no idea of staying with a security for any reasonable length of time. Surely these people have no legitimate complaint. They are the hit-and-run opportunists that abound in every period of rising prices, and any ruling that is directed to assist them in obtaining participations in new issues is certainly going to help a class of stock buyers that make for the kind of bull markets that in the long run do more harm than good.

If any rule limiting the participation of so-called insiders has the effect of casting doubt regarding the initial success and possible oversubscription of new issues it will impede new flotations. The larger, well-known company will fare badly enough, but the smaller ones will see the first opportunity for obtaining equity capital during the past 15 years vanish completely before their eyes.

No ruling should be made that would handicap the initial sale and offering of issues. For the time being, big and small business alike needs the widest possible latitude in its quest for working capital, expansion, and its promotional activities.

If it takes inside subscriptions of partners of underwriting firms, participating dealers, and even their cousins, uncles and aunts, to make an initial success of such underwritings, then let's have it. If it means that hundreds of free riders also climb on board and help along, let's have them too. Many people are going to get hurt when they put money into young, struggling and expanding business organizations. That is always the way it has been during the history of this growing, progressive country. But, by the same token, some few are going to reap exceptional rewards.

BETTER WE SHOULD HAVE NO RULING AT ALL, THAN ONE THAT WILL STIFLE THE OPPORTUNITY TO OBTAIN PUBLIC FINANCING.

Broker-Dealer Personnel Items

(Special to THE FINANCIAL CHRONICLE)
BECKSVILLE, OHIO—**G. Paul Gordon**, who has recently been in the armed forces, is now associated with **Bache and Co.**

(Special to THE FINANCIAL CHRONICLE)
BEVERLY HILLS, CALIF.—**Ernest C. MacLean** is now connected with **Atlas Securities, Inc.**, 9494 Wilshire Boulevard. He was previously with Walston, Hoffman & Goodwin.

(Special to THE FINANCIAL CHRONICLE)
DAYTON, OHIO—**James A. Lee** has become associated with **Slayton & Co., Inc.** He has been serving in the U. S. Army Air Force as an officer since 1939.

(Special to THE FINANCIAL CHRONICLE)
FOND DU LAC, WIS.—**Roger Gormican** has joined the staff of **Joseph L. Gormican**, 10 South Marr Street. For the past three years he has been in military service; prior thereto for 10 years he was with Harris Trust & Savings Bank of Chicago.

(Special to THE FINANCIAL CHRONICLE)
GULFPORT, FLA.—**Charles S. Philbrook** has been added to the staff of **Herrick, Waddell & Co., Inc.**

(Special to THE FINANCIAL CHRONICLE)
LOS ANGELES, CALIF.—**Francis Douglas** is now with **Bingham, Walter & Hurry**, 621 South Spring Street.

(Special to THE FINANCIAL CHRONICLE)
LOS ANGELES, CALIF.—**Louis M. Fabian**, formerly with William R. Staats Co., is now connected with **Blyth & Co., Inc.**, 215 West Sixth Street.

(Special to THE FINANCIAL CHRONICLE)
LOS ANGELES, CALIF.—**John M. Cunningham** has been added to the staff of **G. Brashears & Co.**, 510 South Spring Street.

(Special to THE FINANCIAL CHRONICLE)
LOS ANGELES, CALIF.—**Hamill D. Martyn** is with **Buckley Brothers**, 530 West Sixth Street.

(Special to THE FINANCIAL CHRONICLE)
LOS ANGELES, CALIF.—**Eduard S. Walden** has joined the staff of **Nelson Douglass & Co.**, 510 South Spring Street.

(Special to THE FINANCIAL CHRONICLE)
LOS ANGELES, CALIF.—**Joseph R. Manwaring** is with **Fairman & Co.**, 210 West Seventh Street.

(Special to THE FINANCIAL CHRONICLE)
LOS ANGELES, CALIF.—**Sidney B. Hook**, previously with Dean Witter & Co., is now with **First California Company**, 650 South Spring Street.

(Special to THE FINANCIAL CHRONICLE)
LOS ANGELES, CALIF.—**Augustus Slater** and **Mernice Tate** are with **Gross, Van Court & Co.**, 639 South Spring Street. Mr. Tate was formerly with Lester & Co.

(Special to THE FINANCIAL CHRONICLE)
LOS ANGELES, CALIF.—**Alexander F. Smith** is with **Harbison & Gregory**, 210 West Seventh Street.

(Special to THE FINANCIAL CHRONICLE)
LOS ANGELES, CALIF.—**William C. Wylde** is with **Harris, Upham & Co.**, 523 West Sixth Street.

(Special to THE FINANCIAL CHRONICLE)
LOS ANGELES, CALIF.—**Robert N. Gulick** has been added to the staff of **Hopkins, Harbach & Co.**, 609 South Grand Avenue.

(Special to THE FINANCIAL CHRONICLE)
LOS ANGELES, CALIF.—**James A. Fessenden** is with **Slayton & Co., Inc.**

(Special to THE FINANCIAL CHRONICLE)
LOS ANGELES, CALIF.—**Robert P. Bestor, Stanley K. Chambers, Robert W. Gale, Kenneth J. Kindblad, Eugene P. Kuntz**, and **Carl V. Olson** have been added to the staff of **William R. Staats Co.**, 640 South Spring Street.

(Special to THE FINANCIAL CHRONICLE)
MADISON, WIS.—**David H. Gernon** is with **Holley, Dayton & Gernon**, First National Bank Building.

(Special to THE FINANCIAL CHRONICLE)
MIAMI BEACH, FLA.—**Victor C. Moore** is with **Blair F. Claybaugh & Co.**, 421 Lincoln Road. He was formerly with Tellier & Co.

(Special to THE FINANCIAL CHRONICLE)
MIAMI BEACH, FLA.—**Frank L. Harney, Jr.**, has joined the staff of **Atwill & Co.**, 605 Lincoln Road.

(Special to THE FINANCIAL CHRONICLE)
MIAMI BEACH, FLA.—**Edwin S. Crooks** is connected with **Thomson & McKinnon**, 1037 Lincoln Road.

(Special to THE FINANCIAL CHRONICLE)
MINNEAPOLIS, MINN. — **Paul Baumgartner** is associated with **E. H. Rollins & Sons, Inc.** He was formerly an officer of N. W. Flax Industries and of the Winona National & Savings Bank.

(Special to THE FINANCIAL CHRONICLE)
NEW HAVEN, CONN.—**William H. Wilsen** has become affiliated with **Eisele & King, Libaire, Stout & Co.**, 197 Church Street.

(Special to THE FINANCIAL CHRONICLE)
OMAHA, NEB. — **Robert E. Cooper** has been added to the staff of **John M. Douglas**, Insurance Building.

(Special to THE FINANCIAL CHRONICLE)
ORLANDO, FLA. — **Robert E. Nowell** is now with **Thomson & McKinnon**, 18 Wall Street.

(Special to THE FINANCIAL CHRONICLE)
PORTLAND, MAINE — **Pauline L. McClain**, previously with Frederick M. Swan & Co., is now with **Clifford J. Murphy Co.**, 443 Congress Street.

(Special to THE FINANCIAL CHRONICLE)
ST. LOUIS, MO.—**Alfred O. Anderson** and **Ora James Stratton** are with **Slayton & Co., Inc.**, 111 North Fourth Street.

(Special to THE FINANCIAL CHRONICLE)
SAN FRANCISCO, CALIF.—**Wiley R. Reynolds** has become associated with **Davies & Mejia**, Russ Building. He was formerly with Schwabacher & Co., for many years.

(Special to THE FINANCIAL CHRONICLE)
SAN FRANCISCO, CALIF.—**Frank T. Bridges** is with **Schwabacher & Co.**, 600 Market Street.

The UN and American Foreign Policy

(Continued from page 2077)

Beardsly Ruml says, "is a just and durable peace."

It is not my purpose to deny that world government is desirable or to dispute the claims of nuclear physicists and economists, but I do question the relevancy to the problem of world peace of both propositions. There is today no guarantee that the United Nations Organization will evolve into a world government. It is unlikely that a considerable enhancement of UN's powers of enforcement would result in the creation of a real and viable world government as a living organism and not a figment of a paper constitution.

Living in Dangerous World

We are living in a dangerous world littered with highly explosive stuff and incendiary materials. This explosive stuff and incendiary material consist of the same unresolved political and ideological issues which led the world into two universal wars, overwhelmed the League of Nations (which, be it repeated, compares not unfavorably with UN), and possess destructive potentialities far greater than those of the atomic bomb. The fact is that nationalism has been strengthened, not weakened, by two world wars originating principally in nationalizing the economic equilibrium of the world is far less stable today than it was thirty-five years ago, and long years of unspeakable privations entailed the stark brutalization and subjection to arbitrary rule of a large part of mankind.

No Cure for Chronic Ills

Clever constitutional devices are no cure for the chronic ills of our times. They are plausible remedies if we confine our diagnosis to the symptoms of a disease about which we as yet possess only imperfect knowledge. They cannot cure the patient, the human race. Moreover a world government cannot function in a spiritual vacuum. A world community cannot be created by constitutional fiat. If it ever will become a reality—and I believe that the realization of the city of man is—as history goes—not a long time off—it will rise from the reconciliation of the distinct national and ideological differences which today still interpose insurmountable barriers between peoples. In short, a world government must possess the allegiance of all peoples just as nations now possess the allegiance of their citizens.

The atom bomb has indubitably hightened our consciousness of danger. However, its value as an educational device for demonstrating the necessity of peaceful collaboration is of limited value. It is true that the frightened man will run faster. But a very frightened man will lose all sense of direction and fall prey to uncontrollable fear neurosis. The result is panic. Panic, translated into international terms, means an uncontrollable tendency towards preventive war. Weapons do not produce war. It is the will to use weapons which impells nations to seek recourse to violence. The will to violence is fed by precisely those unresolved issues and political and ideological divergencies which today still bar the road to world government.

Must Solve Basic Issues

We must seek to insure peace by dealing promptly and intelligently with these basic issues and, more specifically, with concrete cases in international relations. The world-wide threat of mass starvation, the plight of displaced persons, the abatement of territorial rivalries, the resumption of world-wide economic exchanges, the reduction of tariffs, the emancipation of dependent peoples and the gradual transformation of colonial empires into commonwealths of nations, these are the concrete problems of international politics. You may say that this is a large order and that there is nothing startlingly new in my prescription, but international politics is a compendium of infinitely varied and complicated problems. There are no cure-alls, no short-cuts.

The United Nations Organization cannot begin to solve any one of these problems if the United States does not apply all its resources, physical and spiritual, to the task. The Charter of UN opens new pathways for American initiative. But the creation of a new League of Nations increases rather than diminishes the urgent need for a considered and forceful American foreign policy. We are still living in a state of emergency, obscured by the formal cessation of the fighting and the enthusiasm of reconversion. In a sense, the emergency this country faces today is greater than the one which impelled it to concert its energies in order to defeat the Axis powers. For the rest of our lives foreign policy will have to be accorded primacy over internal politics. We must unfetter the productive forces of our economy in order to meet our international obligations. World peace will largely depend on a successful solution of our domestic problems, i.e.: on the economic well being and social equilibrium we achieve at home. Like Atlas we carry the globe on our shoulders.

Reynolds & Co. Offers Nat'l Automotive Stock

Reynolds & Co. heads an underwriting group which is offering to the public 178,000 shares of common stock, par value $1 per share, of National Automotive Fibres, Inc., at $19.875 per share. Of the total offering, 150,000 shares are being sold by the company and the balance is being sold for the account of California Cotton Mills, a selling stockholder.

Proceeds from the financing will be used by the company to repay present bank loans; to pay part of the cost of new plant including machinery and equipment to be erected in northern Ohio; to pay for machinery and equipment in Louisville, Miss.; Trenton, N. J., and Los Angeles, Calif, and to pay for warehouses in Los Angeles and Waterford, N. Y.

National Automotive Fibres was incorporated under Delaware laws in 1928 and is engaged principally in a textile specialty business, the products of which are sold to the automobile industry. The business includes the cutting and assembly of materials into seat cushions and backs for installation in the interior trimming of automobiles and also into interior door panels for the same purpose. The company's facilities have been reconverted from wartime to peacetime operations.

Puget Sound Timber Stock Offered at $26½

A banking group headed by First California Co. on April 15 offered to the public an issue of 79,719 shares of common stock (no par) at $26.50 per share. The issue does not represent new financing in behalf of the company.

Our Reporter's Report

With their reconversion from war to peacetime tasks pretty well along toward completion, industrial companies are beginning to look with a more aggressive eye toward their programs of contemplated expansion.

Such undertakings naturally call for additional capital and the prevailing character of the money market is highly attractive to say the least. Current conditions in the capital market are unprecedented, with best industrial names being able to borrow for terms of 25 to 30 years at a net cost of around 2½%.

Largest of these projects to date is that of Shell Union Oil Corp., involving $125,000,000 of 25-year debentures carrying a 2½% coupon for which the company received a price of 100½ from bankers who reoffered the issue yesterday at 101½.

Of the total amount to be raised $86,355,614 is to be applied to retirement of outstanding obligations, with the balance of almost $39,000,000 being added to general funds available for expanding operations, oil reserves, etc.

Response of institutional investors was reported widespread with savings banks, and insurance companies, notably the Philadelphia group, showing marked interest.

The securities were made the more attractive by restrictions written into the indenture definitely restricting the borrowing powers of subsidiaries, and by the liberal sinking fund provisions which call for payments of $1,000,000 each year from 1947 to 1955 and $5,000,000 annually from 1956 to 1970.

U. S. Rubber Co. 2½s

Another of the big industrial firms which is definitely in the market for new money, U. S. Rubber Co., has filed necessary registration for sale of $40,000,000 of new 30-year 2½% debentures to mature in 1976.

This is entirely a new money operation and should be along in due course as the proposal completes the required period of "hibernation" under the law. Funds will be used for multifold purposes, all looking toward expansion of the firm's operations, particularly into new fields.

Scope of the projected expansion in this case is emphasized by the action, early this week, of stockholders in approving an increase in common capital to 2,500,000 shares from 1,918,412 shares, the additional stock to be used as needed for financing growth of operations.

Utility Issues Expanding

The list of potential utility undertakings was augmented this week when it developed that bankers have formed at least one group to bid for prospective new securities of Northern Indiana Public Service Co., which has an issue of $45,000,000 of series C 3⅛s outstanding.

Utah Power & Light Co. soon should issue a call for bids for its proposed $32,000,000 of new first mortgage bonds which have been approved by SEC along with $11,500,000 of notes for sale to certain banks.

Meanwhile The State Board of Public Utility Commissioners has approved a proposed issue of $12,500,000 of new cumulative preferred stock by Jersey Central Power & Light Co. which also proposes to retire $21,861,500 of outstanding preferred shares.

Another utility issue which has little interest so far as bankers are concerned is Shawinigan Water & Power Co., $25,000,000 of series M 3% mortgage and collateral bonds, due 1971, for private sale in the U. S. at 104½ to yield about 2.75%. Insurance companies doubtless got first look at that one.

Canadian and U. S. Credits to Britain

(Continued from page 2079)

management of the Bretton Woods Monetary Fund and Bank has recently taken place at Savannah, Georgia. Very wisely it has been said there that the embryo Managers are not responsible for the principle of the Bretton Woods scheme. That was settled first at the Bretton Woods Conference itself, and since then by the Governments and Parliaments of the various nations, when they decided whether or not to adhere to the Plan. Nor is it material at the moment that Britain's own adherence is contingent upon the ratification by Congress of the American loan. The Bretton Woods Plan provides for the dropping-out of a country at its will, and while it is to be hoped that Britain will not have to drop out, there is no need to face that contingency yet. As things are, Britain, through her representatives on the Management, will continue to take her full share in getting both the Fund and the Bank on their legs.

I am glad that those nations who have not formally adhered to Bretton Woods are represented at the Savannah meeting by observers. Among such nations are one or two members of the British Empire and the sterling area, such as Australia. At times it is asked whether the adherence to Bretton Woods of some but not all the members of the sterling area will automatically lead to the break-up of the sterling area. For my part I can see no reason why it should. The fact that under Bretton Woods its adherents can settle their foreign exchange transactions through the Monetary Fund does not compel them to do so to the exclusion of other means of settlement, such as those provided by the sterling area. On the contrary the use of the Fund is regarded as a means of settlement of last resort and not first resort; and the use of the facilities provided by the Fund is made expensive for that reason. So if, for example, Britain remains in the Bretton Woods Plan and Australia stays outside, there is nothing to prevent the continuance of the existing arrangements between the two countries.

Australia Would Gain

If anything, Australia would gain by the continuance of these arrangements. For she would obtain via Britain second-hand access to the conveniences of the Fund. This is not, however, an argument for Australia staying out.

All this for the future. For the moment Britain has the Canadian credit of 1,250 million Canadian dollars. She may also get the American credit of 3,750 million U. S. dollars. If so, she will be in a position to get back above her "dead center" below which she fell solely as the result of her efforts in the war. She will then be able to make full use of the stabilizing resources of the Bretton Woods Monetary Fund, and so will overcome her difficulties.

William Bianchi Opens

William J. Bianchi is engaging in the securities business from offices at 127 East 106th Street, New York City.

Morgan Stanley & Co. Offers $125,000,000 Shell Union Debentures

Morgan Stanley & Co. headed a nationwide group of 149 investment bankers that made a public offering April 17 of $125,000,000 Shell Union Oil Corp. 25-year 2½% Debentures, due April 1, 1971, at 101½% and accrued interest. These Debentures represent the largest industrial issue that has been offered since the advent of the Securities Act of 1933.

Proceeds of the financing will be used to redeem $5,835,000 outstanding serial notes, due January 15, 1947-53, $66,155,000 15-Year 2½% Debentures, due July 1, 1954, and $13,071,000 20-Year 2¾% sinking fund Debentures, due January 15, 1961. The total cost of redemption of these issues, exclusive of accrued interest to be paid out of treasury funds, is $86,355,614.

The remainder of the proceeds will be added to general funds of the corporation. A program is under consideration for expanding operations of subsidiaries and affiliates, including replacement of and additions to crude oil reserves, extension and improvement of refining and marketing facilities, the installation of additional chemical plants and other related projects.

Shell Union Oil Corp. is a holding company. Its subsidiaries are engaged in the oil industry and the related chemical field within the United States and Hawaii. Crude oil is being produced principally in the states of California, Illinois, Kansas, Louisiana, New Mexico, Oklahoma and Texas. Subsidiaries operate pipe lines, motor trucks, tank cars, water terminals, storage facilities, etc. Refineries are operated at Martinez, Coalinga and Dominguez-Wilmington, California; Houston, Texas; Norco, Louisiana and Wood River, Illinois. Chemical plants are located at Shell Point, Martinez, and Dominguez, California and Houston, Texas. Products are distributed in most of the 48 states and in Hawaii.

During the past five years the company's over-all crude oil reserve position has improved considerably. Estimated net oil reserves at January 1, 1946 amounted to 745,516,000 barrels compared with 675,775,000 barrels at January 1, 1941. 325,659,000 barrels had been withdrawn from the properties during this period.

Goldman, Sachs Offers Globe-Union Stock

Goldman, Sachs & Co. headed a public offering April 16 of 120,000 shares of capital stock of Globe-Union Inc. at $23 a share. Of the total stock being offered, 81,000 shares are being sold by certain stockholders and the balance by the company.

This is the first public offering of stock of Globe-Union, Inc., which has developed from a small farm lighting equipment business initiated in Milwaukee before 1908 to a major supplier of storage batteries for the automobile replacement market and of basic electronic component parts for use in radio, television, radar and other electronic equipment. The company, which now operates nine plants, sells substantial portions of its storage batteries, as well as spark plugs and roller skates, to Sears, Roebuck and Co.

The net proceeds to be received by the company from the issue will be added to its general funds, but may be used in connection with contemplated expansion of [illegible] and equipment at various locations.

Securities Now in Registration

● INDICATES ADDITIONS SINCE PREVIOUS ISSUE

Air Products, Inc., Chattanooga, Tenn. (4/29)
April 2 filed 100,000 shares class A stock (par $1) and 290,000 shares common stock (par $1). **Underwriters**—Reynolds & Co. **Offering**—100,000 shares of class A stock and 100,000 shares of common are offered in units of one share of each at $11 per unit. Of remaining common, 150,000 shares will be offered at discretion of underwriter to purchasers of such units or to others at $1 per share. Remaining 40,000 shares common are being offered by company directly to certain officers and employees at $1 per share and are not underwritten. **Proceeds** — $60,000 to purchase machinery and equipment heretofore rented from Defense Plant Corp.; $81,500 to purchase of plant at Emmaus, Pa., together with $70,000 for cost of conversion and moving; balance (estimated $913,500) for general working capital. For details see issue of April 4.

● **Ambassador Mines Corp., Spokane, Wash.**
April 8 (letter of notification) 600,000 shares of common stock, of which 400,000 shares are to be sold at 15 cents per share and 200,000 shares at 15 cents will be reserved and offered for labor, mining equipment, etc. No principal underwriter, but salesmen may be employed.

American Acoustics, Inc., New York (4/22)
April 9 (letter of notification) 59,800 shares of 6% cumulative convertible preferred stock (par $5) and 59,800 shares of common stock (par 10c); 100,000 stock purchase warrants and 149,500 shares of common to be issued upon conversion of preferred at rate of 2½ common for 1 preferred. **Underwriters**—L. D. Sherman & Co. **Offering**—Stocks to be offered in units of one share each at $5 per unit. Warrants will be sold at 1 cent each. **Proceeds**—Payment of obligations to be assumed and to pay Pressurelube Inc. for inventories and other property acquired from it, working capital, etc.

American Air Filter Co., Inc., Louisville, Ky.
March 13 filed 101,086 shares of common stock (par $1). Shares are being sold by certain stockholders. **Underwriters**—Almstedt Bros., Equitable Securities Corp., Bankers Bond Co., W. E. Hutton & Co., and Stein Bros. & Boyce. **Offering**—Price to public $13.75 per share. For details see issue of March 21.

American Machine & Foundry Co., N. Y. (4/25)
March 28 filed 80,000 shares of cumulative preferred stock (par $100). Dividend rate by amendment. **Underwriters**—Lehman Brothers and Union Securities Corp. **Offering**—Price to public by amendment. **Proceeds**—Working capital to provide funds in connection with new product known as "AMF Automatic Pinspotter." For details see issue of April 4.

American Mail Line Ltd., Seattle, Wash. (4/22)
March 11 filed 49,602 shares of common stock (no par). **Underwriters**—Blyth & Co., Inc. **Offering**—Common stockholders given right to subscribe for 49,602 shares at $20.50 per share on basis of 48/100 of a share for each share held. For details see issue of March 21.

American Manufacturing Co., Inc., Montgomery, Ala. (4/24)
April 5 filed 1,000,000 shares of common (par $1). **Underwriters**—No underwriting—to be offered directly to the public by the company. **Offering**—Price to public $1 per share. Issue will be sold within State of Alabama. **Proceeds**—Acquisition of additional machinery, working capital, etc. For details see issue of April 11.

American Screw Co., Providence, R. I. (5/1)
March 29 filed 21,550 shares of 4½% cumulative convertible preferred stock (par $50) **Underwriters**—G. H. Walker & Co. **Offering**—Common stockholders may subscribe to new preferred at rate of one share of preferred for each four shares of common held at $52 per share. Unsubscribed shares will be purchased by underwriter. **Proceeds**—Proceeds, together with a term loan of $1,250,000 and current funds will be used to finance the purchase of a plant formerly belonging to the Defense Plant Corp. for $1,750,000, purchase of additional machinery and equipment and for other plant improvements. For details see issue of April 4.

Amerian Water Works Co., Inc., N. Y.
March 30 filed 2,343,105 shares of common (par $5) plus an additional number determinable only after the results of competitive bidding are known. **Underwriters**—To be filed by amendment. Probable bidders include Dillon, Read & Co. Inc., White Weld & Co., and Shields & Co. (jointly), and W. C. Langley & Co. and The First Boston Corp. (Jointly). **Offering**—Price to public by amendment. **Purpose**—The common stock, together with $15,000,000 10-year 3% collateral trust bonds (to be sold privately) are to be issued to acquire certain assets of American Water Works & Electric, liquidate two subsidiaries, Community Water Service Co. and Ohio Cities Water Corp., and provide cash working capital. Common stock is to be offered initially for cash to common stockholders of parent and to public holders of preferred stocks of Community and Ohio in exchange for their shares. Stock not subscribed or issued under exchange offers are to be sold for cash to underwriters. For details see issue of April 4.

● **Aracaibo Oil Exploration Corp., New York**
April 11 (letter of notification) 66,000 shares capital stock. Price to public $3.50 per share. No underwriting.

● **Armstrong Rubber Co., West Haven, Conn.**
April 10 (letter of notification) 3,000 shares Class A common stock, without par value. **Underwriter**—F. Eberstadt & Co., Inc. Stock being sold by Frederick Machlin, a stockholder. The securities are to be offered at the market.

Aro Equipment Corp., Bryan, Ohio (4/29)
March 14 filed 30,000 shares of cumulative preferred stock, 4½% series (par $50) and 20,000 shares of common (par $2.50). **Underwriters**—Central Republic Co., Inc., and Reynolds & Co. **Offering**—Prices to public by amendment. For details see issue of March 21.

Atlas Imperial Diesel Engine Co., Oakdale, Calif.
Feb. 28 filed 30,000 shares of series A cumulative preferred stock ($50 par). Dividend rate by amendment. **Underwriters**—Blyth & Co., Inc. Offering postponed indefinitely. For details see issue of March 7.

Barium Steel Corp., S. E. Canton, O.
March 30 filed 350,000 shares of common stock (par $1). **Underwriters**—Laird, Bissell & Meeds. **Offering**—Price to public by amendment. **Proceeds**—Payments to and advances to subsidiaries for working capital, for purchase of equipment, repayment of loans, development, etc. For details see issue of April 4.

Bendix Helicopter, Inc., New York
Feb. 13 filed 507,400 shares of common stock (par 50c). Shares are being sold for the account of the estate of Vincent Bendix, deceased. **Underwriters**—Kobbe, Gearhart & Co., Inc., For details see issue of Feb. 20.

Bendix Home Appliances, Inc., South Bend, Ind.
March 21 filed 104,301 shares of common stock (par 33⅓ cents per share). **Offering**—Common stocks holders of record March 30 are given the right to subscribe to one share of new common for each 10 shares held. at $17 per share. Issue is not being underwritten. For details see issue of March 28.

Benguet Consolidated Mining Co., Manila, P. I.
March 15 filed 702,302 shares of capital stock value (par 1 peso, equivalent in U. S. currency to 50 cents per share). **Underwriters**—Allen & Co. 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**—Price by amendment. For details see issue of March 21.

● **Bonanza Gold Mining Syndicate, Inc., Los Angeles, Calif.**
April 8 (letter of notification) 100,000 shares. **Underwriters**—David A. Hatfield, Jack Peterman and Aubrey E. Crothers. Price to public $1 per share.

Bowser, Inc., Fort Wayne, Ind. (4/25)
March 25 filed 200,000 shares of $1.20 cumulative preferred stock (par $25), with common stock purchase warrants attached. **Underwriters**—Blair & Co., Inc., New York. **Offering**—Price to public by amendment. For details see issue of March 28.

Burlington Mills Corp., Greensboro, S. C. (4/23)
March 30 filed 100,000 shares of 3½% convertible second preferred stock (par $100). **Underwriters**—Kidder, Peabody & Co. **Offering**—Preferred stock is offered to common stockholders of record April 10 in ratio of three-fiftieths of a share of preferred for each share of common held at $100 per share. Rights expire April 22. Rights appertaining to 55,106 shares of common have been waived by directors and officers so as to make possible the ratio of three-fifieths of a share. The unsubscribed shares will be sold to underwriters. **Proceeds**—For corporate purposes, which are expected to include expenditures of approximately $8,000,000 in 1946 and 1947 pursuant to a program for additions and betterments to plants and equipment. For details see issue of April 4.

Bush Mfg. Co., West Hartford, Conn. (4/26)
March 29 filed 20,000 shares 4½% cumulative convertible prior preferred (par $25) and 10,000 shares common (par $5). **Underwriters**—Lee Higginson Corp. and Chas. W. Scranton & Co. **Offering**—Price to public is $25 per share for preferred and $10 per share for common. **Proceeds**—Proceeds from sale of stocks, approximately $298,000 from sale of 4% sinking fund debentures, together aggregating $844,500, will be used to finance construction of a new plant and for working capital. For details see issue of April 4.

Capitol Records, Inc., Hollywood, Calif. (4/24)
March 28 filed 95,000 shares of common stock (par 25 cents). Shares are being sold by stockholders, Blyth & Co., Inc., and Union Securities Corp. which are selling 47,500 shares each. **Underwriters**—To be selected by Blyth & Co., Inc., and Union Securities Corp. **Offering**—Price to public by amendment. For details see issue of April 4.

Central Maine Power Co., Augusta, Me.
March 18 filed 220,000 shares of preferred stock ($100 par). Dividend rate by amendment. By amendment filed March 29 company proposes to issue $13,000,000 1st & gen. mtge bonds series N due 1976 and 1,000,000 shares common (par $10). Securities will be sold through competitive bidding. **Underwriters**—By amendment. Probable bidders include Glore, Forgan & Co.; W. C. Langley & Co.; The First Boston Corp.; Coffin & Burr; Harriman Ripley & Co.; Blyth & Co., Inc., and Kidder, Peabody & Co. (Jointly). **Offering**—Company will offer to holders of 7% preferred, $6 preferred and 5% $50 preferred stock 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. Balance of new preferred stock will be sold to underwriters, to be selected by competitive bidding. **Bids Invited**—Company will receive bids up to May 7 for the purchase of the bonds, preferred stock and common stock. The interest rate on the bonds and div. rate on the preferred stock are to be specified in the bids. For details see issue of April 4.

Colorado Fuel & Iron Corp., Denver, Colo.
March 14 filed 275,000 shares of common stock (no par). Shares are being sold by certain stockholders. **Underwriters**—No underwriting agreement. **Offering**—Price to public "at market" on the New York Stock Exchange.

Compania Litgrofica De La Habana S. A. (Havana (Cuba) Lithographing Co.)
March 18 filed 19,419 shares of 6% cumulative convertible preferred stock (par $25) and 197,000 shares of common (par 10c). The 19,419 shares of preferred and 162,000 shares of common are being purchased by the underwriters from certain stockholders. The remaining 35,000 shares of common are being purchased from the company. **Underwriters**—Hirsch & Co., New York. **Offering**—Price by amendment. For details see issue of March 21.

Consolidated Gas Electric Light & Power Co. of Baltimore
March 29 filed $44,660,000 series R first refunding mortgage bonds due April 1, 1981. Interest rate by amendment. **Underwriters**—To be filed by amendment. Probable bidders include Halsey, Stuart & Co., Inc.; Harriman, Ripley & Co., and Alex. Brown & Sons (Jointly), and White Weld & Co., and the First Boston Corp. (Jointly). **Offering**—Bonds will be offered for sale at competitive bidding, and the price to the public filed by amendment. **Proceeds**—Net proceeds, together with money from general funds as required, will be applied to redemption of $20,844,000 series N 3¾% bonds and $23,816,000 series O 3¼% bonds at 105½ and 107, respectively. For details see issue of April 4.

• Continental Engineering Co., Carrizozo, N. Mex.
April 11 (letter of notification) 540,000 shares common (par 50c). Price to public 50 cents per share. No underwriting agreement.

• Corporate Leaders of America, Inc., N. Y. (5/4)
April 15 filed 2,500 periodic payment certificate and 500 single-payment certificates. **Sponsor**—Corporate Leaders of America, Inc. **Offering**—There are two methods by which the plan may be employed—periodic monthly payments or a single payment. **Proceeds**—For investment. **Business**—Periodic payment plans.

• Crampton Hardware Co., Grand Rapids, Mich.
April 9 (letter of notification) 22,000 shares convertible 5% cumulative preferred stock, par $10. **Underwriters**—Dudley H. Waters & Co., MacNaughton-Greenawalt & Co. and W. J. Banigan & Co. Price to the public $10 per share. **Proceeds**—Will be used to apply on the purchase price of all of the partners' interests in the Crampton Hardware Co., a partnership.

Crowell-Collier Publishing Co., N. Y. (4/29)
March 29 filed 100,000 shares common stock (no par). Shares are being sold by certain stockholders. **Underwriters**—Wertheim & Co. **Offering**—Price to public by amendment. For details see issue of April 4.

Curtis Companies Inc., Clinton, Iowa (4/24)
March 30 filed 46,050 shares common stock ($2 par). Shares are being sold by certain stockholders. **Underwriters**—Cruttenden & Co. **Offering**—Price to public $12.25 per share.

• Curtis Publishing Co.
April 12 (letter of notification) Mary Curtis Zimbalist, Philadelphia, will sell through Charles A. Greeff (of Granbery, Marache & Lord) a sufficient number of common shares so that aggregate proceeds thereof shall not exceed $97,500. Shares will be sold at market on the New York Stock Exchange.

Dallas Title & Guaranty Co., Dallas, Texas
Feb. 21 filed 25,000 shares of capital stock (par $10). **Underwriters**—None named. **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. For details see issue of Feb. 28.

Davidson Bros., Inc., Detroit, Mich. (4/29)
April 10 filed 100,000 shares common stock (par $1). Shares are outstanding and are being sold for account of certain stockholders. **Underwriters**—Merrill Lynch, Pierce, Fenner and Beane, and Baker, Simonds and Co. **Offering**—Price to public by amendment. For details see issue of April 11.

• Dean Phipps Stores, Inc., Scranton, Pa. (4/22)
April 11 (letter of notification) 29,900 shares of 5½% cumulative preferred stock (par $10) and 49,900 option warrants entitling holders thereof to purchase 24,950 common shares at $6 per share until April 25, 1950. Warrants non-exercisable until April 25, 1947. **Underwriters**—Cohu & Torrey, and W. J. Banigan & Co. **Offering**—To be offered in units of one share of preferred and warrant to buy ½ share of common at $10 per unit. **Proceeds**—For working capital, etc.

• DeVilbiss Co., Toledo, Ohio (5/1)
April 12 104,138 shares common stock (par $5). **Underwriters**—Laurence M. Marks & Co., and Ball, Burge & Kraus. **Offering**—Price to public by amendment. **Proceeds**—$525,000 for redemption of 50,000 shares of 7% preferred stock July 15, 1946, at $10.50 per share and divds.; $775,000 for expenditures at Toledo plant and balance for working capital, etc. **Business**—Atomizers and air pressure spray equipment.

Diamond T Motor Car Co., Chicago, Ill. (5/1)
March 29 filed 60,000 shares of common stock (par $2). Shares are being sold by certain stockholders. **Underwriters**—Hallgarten & Co. **Offering**—Price to public by amendment. For details see issue of April 4.

DuMont (Allen B.) Laboratories, Inc., Passaic, N. J. (4/29)
March 29 filed 650,000 shares of class A common stock (par 10 cents), of which 525,000 shares are being offered for sale by underwriters. **Underwriters**—Van Alstyne, Noel & Co. and Kobbe, Gearhart & Co., Inc. **Offering**—Price to public by amendment. **Proceeds**—To expand television broadcasting and manufacturing facilities and operations in the low-frequency fields. For details see issue of April 4.

New Issue Calendar

(Showing probable date of offering)

April 18, 1946
- Maxson Food System Inc. — Common
- Sylvania Electric Products Inc. — Common

April 19, 1946
- F. & R. Publishing Corp. — Common
- Hallmark Shirt Co. Inc. — Preferred

April 21, 1946
- Sharon Steel Corp. — Common

April 22, 1946
- American Acoustics, Inc. — Preferred and Common
- American Mail Line Ltd. — Common
- Dean Phipps Stores Inc. — Preferred
- Graham-Paige Motors Corp. — Debentures
- Queen Anne Candy Co. — Common
- Roberts & Mander Corp. — Common
- United Transit Co. — Common

April 23, 1946
- Burlington Mills Corp. — 2nd Preferred
- Greenfield Tap & Die Corp. — Common
- Joy Manufacturing Co. — Common
- Panhandle Eastern Pipe Line Co. — Debentures
- St. Joseph Light & Power Co. — Bonds

April 24, 1946
- American Manufacturing Co., Inc. — Common
- Capital Records Inc. — Common
- Curtis Companies, Inc. — Common
- Harrisburg Gas Co. — Bonds
- Kansas City Fire & Mar. Insur. Co. — Common
- Morris Plan Corp. — Pref. and Common
- Selected Industries, Inc. — Debentures
- Sonotone Corp. — Preferred
- Steep Rock Iron Mines Ltd. — Capital Stock

April 25, 1946
- American Machine & Foundry Co. — Preferred
- Bowser Inc. — Preferred
- Longines-Wittnauer Watch Co. — Common
- Mading Drug Stores Co. — Debs., Pref. & Common
- Monsanto Chemical Co. — Preferred
- National Co. — Common
- Public Flyers Inc. — Common
- Samson United Corp. — Preferred
- Stromberg-Carlson Co. — Preferred

April 26, 1946
- Bush Manufacturing Co. — Preferred and Common
- Gerity-Michigan Die Casting Co. — Common
- Red Top Brewing Co. — Class A Common

April 27, 1946
- Norwalk Tire & Rubber Co. — Debentures

April 29, 1946
- Air Products Inc. — Class A Stock
- Aro Equipment Corp. — Preferred
- Crowell-Collier Publishing Co. — Common
- Davidson Bros. Inc. — Common
- DuMont (Allen B.) Laboratories Inc. — Common
- Firth Carpet Co. — Common
- Hamilton Fund — Investment Certificates
- Holley Stores Inc. — Preferred and Common
- Jessop Steel Co. — Preferred
- New Haven Clock & Watch Co. — Preferred
- Standard Steel Spring Co. — Preferred
- Utility Appliance Corp. — Preferred and Common

April 30, 1946
- L'Aiglon Apparel Inc. — Common
- Taca Airways — Common
- United States Rubber Co. — Debentures

May 1, 1946
- American Screw Co. — Preferred
- De Vilbiss Co. — Common
- Diamond T Motor Car Co. — Common
- Hytron Radio & Electronics Corp. — Common
- National Skyway Freight Corp. — Common
- Peerless Casualty Co. — Common

May 4, 1946
- Corporate Leaders of America, Inc. — Payment Ctfs.
- United Wallpaper, Inc. — Preferred

May 6, 1946
- Eureka Williams Corp. — Common
- Federal Mfg. & Engineering Corp. — Common
- Mercantile Stores Co., Inc. — Common
- Minneapolis-Honeywell Regulator Co. — Preferred

May 7, 1946
- Walworth Co. — Debentures and Preferred

May 10, 1946
- Hoffman Radio Corp. — Common

• Eureka Williams Corp., Detroit (5/6)
April 17 filed 17,000 shares common stock (par $5). Shares being sold are either owned by officers and employees or their relatives or are held by the company and are subject to options not yet exercised. **Offering**—Shares may be sold from time to time upon the New York Stock Exchange or the Detroit Stock Exchange by the owners of such shares. **Proceeds**—The proceeds heretofore received by the company from the sale of the shares included in the offering became a part of the working capital of the company and the proceeds received from payment of shares under option also will become part of working capital. The owners will receive the proceeds from the sale of the shares covered in the prospectus. **Business**—Vacuum cleaners, oil burners, etc.

• F. & R. Publishing Corp., N. Y. (4/19)
April 12 (letter of notification) 1,000 shares of common stock. **Underwriter**—Silberberg & Co. **Offering**—Price $52 per share. **Proceeds**—To Ruth G. Vischer, Washington, D. C.

• Federal Mfg. & Eng. Corp., Brooklyn (5/6)
April 16 filed 116,000 shares common stock (par $1). Shares are being sold by four stockholders. **Underwriters**—Sills, Minton & Co., Inc. **Offering**—Price to public by amendment. **Business**—Photographic apparatus and scientific educational toys.

Firth Carpet Co., N. Y. (4/29)
March 29 filed 125,000 shares common stock (no par), of which 33,436 shares are being sold by company, 61,150 by Harold E. Wadely, President, and 30,414 by Graham Hunter, Vice-President, Treasurer and Secretary. **Underwriters**—Reynolds & Co. **Offering**—Price to public by amendment. **Proceeds**—To finance inventories, accounts receivable, general working capital. For details see issue of April 4.

Fleming-Hall Tobacco Co., Inc., New York, N. Y.
April 1 (letter of notification) filed 20,000 shares of common stock (par $1). Sale for benefit of S. C. Korn. **Underwriter**—Floyd D. Cerf Co. **Offering**—Price to public, $5 per share.

Frailey Industries, Inc.
March 13 (letter of notification) 58,680 shares of class A stock (par $1). **Underwriter**—Edward R. Parker & Co. **Proceeds**—Working capital, etc. Price $5 per share.

Gerity-Michigan Die Casting Co., Detroit (4/26)
March 27 filed 450,000 shares of common stock (par $1), of which 300,000 shares are being sold by company and 150,000 shares by certain stockholders. **Underwriters**—Buckley Brothers, Mercier, McDowell & Dolphyn, Ames, Emerich & Co., Inc., and Dempsey & Co. **Offering**—Price to public by amendment. **Proceeds**—To pay note to Associates Discount Corp.; to retire 1,967 shares of cumulative 6% preferred stock ($100 par), balance to finance increased inventories and payrolls. For details see issue of April 4.

Giant Yellowknife Gold Mines, Ltd., Toronto, Ont.
on Feb. 21 filed 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. **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. **Offering**—Price is $5.10 (Canadian) per share, or the United States equivalent. For details see issue of Feb. 28.

Gold City Porcupine Mines, Ltd., Toronto, Ont.
Jan. 4 filed 600,000 shares of common stock (par $1) Canadian currency. **Underwriters**—No underwriters named. **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.

(Continued on page 2126)

Securities Now in Registration

● **INDICATES ADDITIONS SINCE PREVIOUS ISSUE**

(Continued from page 2125)

Graham-Paige Motors Corp. (4/22)
Feb. 21 filed $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, to be issued to Allen & Co., pursuant to a proposed standby agreement. **Underwriters**—Allen & Co., New York. **Offering**—Price to public by amendment. For details see issue of Feb. 28.

Greenfield Tap & Die Corp., Greenfield, Mass. (4/23)
March 28 filed 51,591 shares of common stock (no par). **Underwriters**—Tucker, Anthony & Co. **Offering**—Price to public by amendment. **Proceeds**—Net proceeds, with additional treasury funds will be applied to redemption, on or about May 1, 1946 of 9,000 shares of $6 preferred stock at 105.

Gulf Atlantic Transport'n Co., Jacksonville, Fla.
Jan. 17 filed 270,000 shares of common stock (par $1). **Underwriters**—Allen & Co. **Offering**—Price to the public by amendment. Stock is being offered initially to present shareholders 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. Postponed indefinitely. For details see issue of Jan. 24.

● **Hallmark Shirt Co., Inc., N. Y. (4/19)**
April 12 (letter of notification) 2,000 shares of 6% preferred stock (par $100). **Underwriters**—Not underwritten. **Offering**—To be offered in units of 10 shares at $1,000 per unit. **Proceeds**—To enlarge plant, facilities and equipment, etc.

● **Hamilton Fund, Denver, Colo. (4/29)**
April 11 filed six series of accumulative investment certificates aggregating $4,175,000. **Depositor** — Hamilton Funds, Inc. **Business**—Accumulative investment certificates.

Harrisburg (Pa.) Gas Co. (4/24)
March 19 filed $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. **Underwriters**—By amendment. Probable bidders include Halsey, Stuart & Co., Inc.; W. C. Langley & Co.; Harriman Ripley & Co.; Mellon Securities Corp.; Kidder, Peabody & Co. **Offering**—Price to public by amendment. **Bids Invited**—Company is inviting bids to be considered April 23 for the purchase of the bonds the bidder to specify the interest rate. For details see issue of March 28.

Hayes Manufacturing Corp., Gr. Rapids, Mich.
Feb. 27 filed 215,000 shares of common stock ($2 par). Shares are being sold by certain stockholders. **Underwriters**—Laird, Bissell & Meeds have withdrawn as underwriters. **Offering**—Price to public by amendment. For details see issue of March 7.

Hendry (C. J.) Co., San Francisco, Calif.
March 20 filed 24,000 shares of preferred stock, 5½% cumulative (par $25). **Underwriters**—First California Co. **Offering**—Price to public $25 per share. For details see issue of March 28.

● **Hoffie System, Inc., N. Y.**
April 11 (letter of notification) 4,000 shares of 6% participating, cumulative, non-redeemable, non-convertible, non-voting preferred stock (par $10) and 1,000 shares of common (par $10). **Underwriters** — Not underwritten. **Offering**—Shares will be sold direct to public in units of 4 shares of preferred and 1 share of common at $50 per unit. **Proceeds**—To be used in establishing a chain of food-dispensing units.

Hoffman Radio Corp., Los Angeles, Calif. (5/10)
March 30 filed 120,000 shares common stock (par $1). **Underwriters**—Cohu & Torrey. Offering—Price to public $6 per share. **Proceeds**—$97,125 to redeem preferred stock and approximately $400,000 to retire short-term bank borrowings; balance for working capital. For details see issue of April 4.

● **Holly Stores, Inc., New York (4/29)**
April 10, 32,000 shares 5% cumulative convertible preferred (par $25), and 100,000 shares of common (par $1). **Underwriter**—Carl M. Loeb, Rhoades & Co. **Offering**—Price to public by amendment. **Proceeds**—Will be added to working capital to reimburse company for recent expenditures made in retirement of 7% cumulative preferred stock and class A stock at a cost of $200,010; in prepayment of $400,000 3% promissory note payable to Manufacturers Trust Co., and on account of $153,000 spent for construction or remodeling of six store premises. **Business**—Operates chain of 64 retail women's apparel stores in Middle West, South and East.

● **Hydraulic Products Co., Chicago**
April 11 (letter of notification) 150,000 common shares (par $1). Price to public $2 per share. No underwriting.

Hytron Radio & Electronics Corp., Salem, Mass. (5/1)
March 29 filed 125,000 shares common stock (par $1). **Underwriters**—Herrick, Waddell & Co., Inc., **Offering**—Price to public by amendment. **Proceeds**—Working capital for expanding operations and to retire present bank borrowing. Company intends to advance to Air King Products Co., Inc., a subsidiary recently acquired, $500,000 to equip new plants and for working capital. For details see issue of April 4.

Illinois Power Co., Decatur, Ill.
Feb. 27 filed $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. **Underwriters**—Names by amendment. Probable bidders include Halsey, Stuart & Co., Inc., and The First Boston Corp. For details see issue of March 7.

Indianapolis (Ind.) Power & Light Co.
March 9 filed 120,000 shares of 4% cumulative preferred stock (par $100). **Underwriters**—Although originally underwritten by Lehman Brothers, Goldman, Sachs & Co. and The First Boston Corp., due to ruling of Indiana State Commission the securities will be submitted for public bidding. **Offering**—Company is offering to holders of 140,591 shares of 5¼% cumulative preferred stock the opportunity to exchange their shares for new 4% preferred, the exchange carrying a cash adjustment. Unexchanged preferred will be sold to underwriters. For details see issue of March 14.

Indianapolis (Ind.) Power & Light Co.
March 8 filed 142,967 shares of common stock (no par). **Underwriters**—To be sold through competitive bidding in accordance with ruling of State Commission, originally underwritten by Lehman Brothers, Goldman, Sachs & Co. and The First Boston Corp. **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. For details see issue of March 14.

Jefferson-Travis Corp., New York, N. Y.
Feb. 27 filed 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. **Underwriters**—Richard J. Buck & Co. **Offering**—Price to public $25 per share. For details see issue of March 7.

Jessop Steel Co., Washington, Pa. (4/29)
March 28 filed 60,000 shares of cumulative convertible preferred stock (par $25). Dividend rate by amendment. **Underwriters**—Paul H. Davis & Co. **Offering**—Price to public by amendment. **Proceeds**—$825,000 to retire regulation V-Loan; balance for additions. For details see issue of April 4.

Joy Manufacturing Co., Pittsburgh (4/23)
March 27 filed 51,400 shares common stock (par $1). Shares being sold by Adams Express Co. (35,600) and American International Corp. (15,800). **Underwriters**—Hallgarten & Co. and R. W. Pressprich & Co. **Offering**—Price to public by amendment. For details see issue of April 4.

Kansas City (Mo.) Fire & Mar. Ins. Co. (5/24)
March 28 filed 50,000 shares of common stock (par $10). **Underwriters**—First Boston Corp. **Offering**—Shares are being offered to common stockholders of record May 11 at rate of one share of new stock for each share of common held. Price by amendment. Subscription rights expire May 24. Unsubscribed shares will be sold to underwriters. **Proceeds**—To increase capital and surplus. For details see issue of April 4.

Keyes Fibre Co., Portland, Me.
March 28 filed $2,800,000 first mortgage bonds due April 1, 1966. Interest rate by amendment. **Underwriters**—Coffin & Burr, Inc.; Paine, Webber, Jackson & Curtis, Estabrook & Co., E. H. Rollins & Sons, Inc., and H. M. Payson & Co. **Offering**—Price to public by amendment. **Proceeds**—To redeem $1,800,000 4¼% first mortgage sinking fund; cost of construction and equipment of the Hammond plant. For details see issue of April 4.

● **L'Aiglon Apparel, Inc., Philadelphia (4/30)**
March 11, 130,000 shares of common stock, par $1. Of the total 80,000 shares are being purchased by the underwriter from the company and 50,000 shares from two stockholders. **Underwriters**—Otis & Co. **Offering**—Price to public $6.50 per share. **Proceeds**—Approximately $100,000 for the purchase of new machinery and equipment; not exceeding $250,000 to acquire an additional plant site and construct new plant thereon, or obtaining an additional plant by purchase or lease. **Business**—Manufacture of women's dresses.

Longines-Wittnauer Watch Co., Inc., N.Y. (4/25)
March 29 filed 125,000 shares of common stock (par $1). Shares are being sold by Ira Guilden, research, development and manufacturing consultant of company. **Underwriters**—Paul H. Davis & Co., A. C. Allyn & Co., Inc., and Emanuel & Co. **Offering**—Price to public by amendment. For details see issue of April 4.

Lynch Corporation, Anderson, Inc.
March 29 filed 75,000 shares of common stock (par $2). **Underwriters**—Offering not underwritten. **Offering**—Company is offering the shares to holders of common stock of record April 18, at the rate of one share for each five shares held at $15 per share. Management expects to offer at $15 per share to key personnel, other than the President, such shares of present offering as are not subscribed for. **Proceeds**—Proceeds to pay bank loans $581,000; to reimburse treasury for addition to Toledo plant $125,000; to discharge other indebtedness $150,000 and for working capital $244,000. For details see issue of April 4.

McGraw (F. H.) & Co., Hartford, Conn.
March 25 filed 36,000 shares of $1.50 preferred stock (no par) and 100,000 shares of common (par 10 cents). **Underwriters**—Granbery, Marache & Lord and Bear, Stearns & Co. **Offering**—Prices to public by amendment. For details see issue of March 28.

Mading Drug Stores Co., Houston, Tex. (4/25)
March 30 filed $500,000 5% sinking fund debentures; 50,000 shares of 55-cent cumulative preferred stock ($5 par) and 40,000 shares of common ($1 par). **Underwriters**—Alex. Brown & Sons, Rauscher, Pierce & Co., Inc., and G. H. Walker & Co. **Offering**—Price of debentures 100 and prices of preferred and common stocks by amendment. **Proceeds**—Purchase of 3,587 shares of common stock of Mading's Drug Stores, Inc.; general corporate purpose, including the opening and acquisition of additional stores. For details see issue of April 4.

● **Maxson Food Systems, Inc. (4/18)**
April 11 (letter of notification) 18,000 shares of common stock (par 25c). **Underwriters**—None. **Offering**—Stock will be offered at $1 per share on behalf of W. L. Maxson Corp.

● **Mercantile Stores Co., Inc., New York (5/6)**
April 17 filed 279,250 shares common stock (no par). The shares are outstanding and are being sold by 21 stockholders. **Underwriters** — Clark, Dodge and Co. **Offering**—Price to public will be filed by amendment.

● **Minneapolis-Honeywell Regulator Co., Minneapolis (5/6)**
April 17 filed 85,700 shares of convertible preference stock (par $100) and common stock to be reserved for issue on conversion of the series A preference stock. **Underwriters**—Union Securities Corp. **Offering**—New preference stock is being offered to the holders of outstanding 85,700 shares of preferred stock consisting of 30,700 shares of 4% convertible series B, 25,000 shares 4¼% cumulative series C and 30,000 shares 4% cumulative series D. As the price at which the company will sell to underwriters any shares of series A stock not issued under the exchange offer is at $108 per share and accrued dividends. The basis of exchange will be 4% series D, callable at $108, share for share; 4¼% series C, callable at $107.50, share for share on payment to the company of 50 cents per share, and 4% series B, callable at $105, share for share on payment to company of $3 per share. Unsubscribed shares will be sold to underwriters who will offer them to the public at $108 per share. **Purpose**—To refinance preferred stock. All old shares of preferred will be called for redemption.

Monsanto Chemical Co., St. Louis, Mo. (4/25)
March 15 filed 316,967 shares of $3.25 cumulative preference stock, series A (no par) convertible into common before June 1, 1956. **Underwriters**—Smith, Barney & Co. **Offering**—Shares are offered holders of common stock of record April 8 on basis of one share of preference for each four shares of common held at $101.50 a share. Rights will expire 3 p.m., April 24, 1946. For details see issue of March 21.

● **Motorette Corp., Buffalo, N. Y.**
April 11 (letter of notification) 23,530 shares of common stock. **Underwriters**—Not underwritten. Stock will be sold to public at $10 per share. **Proceeds** will be used to increase inventories, working capital and pay loan of $45,000 to Smaller War Plants Corp.

Morris Plan Corp. of America, N. Y. (4/24)
Jan. 29 filed 100,000 shares of preference stock, series A (par $1) with common stock purchase warrants attached and 150,000 shares of common (10c par). Dividend rate on preferred by amendment. The statement covers 200,000 additional shares of common reserved against warrants. **Underwriters**—Eastman, Dillon & Co. **Offering**—Price to public by amendment. For details see issue of Feb. 7.

● **Murray Consolidated Mining Co., Spokane, Wash.**
April 8 (letter of notification) 500,000 shares. **Underwriter**—Marvin Claude Meddock. Price to public 10 cents per share. For prospecting and development work.

National Co., Inc., Malden, Mass. (4/25)
March 20 filed 200,000 shares of common stock (par $1), of which company is selling 50,000 shares and certain stockholders 150,000 shares. **Underwriters**—Bond & Goodwin, Inc. **Offering**—Price to public $6 per share. For details see issue of March 28.

National Skyway Freight Corp., Los Angeles, Calif. (5/1)
March 30 filed 500,000 common share (par $1).—**Underwriters**—Bond & Goodwin, Inc. **Offering**—Price to public $5 per share. **Proceeds**—Working capital. For details see issue of April 4.

New Haven (Conn.) Clock & Watch Co. (4/29)
March 29 filed 62,500 shares of 4½% cumulative convertible preferred stock (par $20). **Underwriters**—Reynolds & Co. **Offering**—Price to public by amendment. **Proceeds**—To repay at $481,360 bank loan; to redeem 4,376 shares of 6½% cumulative preferred stock; balance for purchase of new machinery. For details see issue of April 4.

Norwalk (Conn.) Tire & Rubber Co. (4/27)
March 21 filed $1,444,500 convertible debentures due April 15, 1956. Interest rate by amendment. **Underwriters**—Carl M. Loeb, Rhoades & Co. **Offering**—Common stockholders of record April 11 given right to subscribe for new debentures at rate of one $500 debenture for every 70 shares of common stock held at 101. Rights expire April 27. For details see issue of March 28.

Ohio Public Service Co., Cleveland, O.
March 30 filed $32,000,000 first mortgage bonds, due 1976; $5,500,000 serial notes and 156,300 shares of cumulative preferred stock (par $100). Interest rate on the bonds and notes and dividend rate on the preferred stock by amendment. **Underwriters**—To be filed by amendment. Probable bidders include Mellon Securities Corp.; Halsey, Stuart & Co., Inc. (bonds only); the First Boston Corp. **Offering**—Prices to public by amendment. **Proceeds**—Redemption and payment of bonds, notes and preferred stock. For details see issue of April 4.

Oil Prospects, Inc., New Bedford, Mass.
April 8, (letter of notification) 59,250 shares capital stock (par $5). **Underwriter**—Arthur G. Wadsworth & Co., New Bedford. Price to public $5 per share. **Proceeds**—To defray expenses in connection with acquisition of properties and to purchase non-producing mineral rights under lands that are now under effective oil and gas leases.

Palmetex Corp., Pinellas Park, Fla.
March 22 filed 250,000 shares common stock (par $1). **Underwriter**—Floyd D. Cerf Co., Inc., Chicago. **Offering**—Price to public is $3.25 per share. **Proceeds**—Purchase of plant occupied under lease, new dryer, working capital, etc.

Panhandle Eastern Pipe Line Co., Chic. (4/23)
April 4 filed $50,000,000 serial debentures, dated May 1, 1946. Interest rate by amendment. **Underwriters**—First $20,000,000 maturities to be sold privately; balance underwritten by Kidder, Peabody & Co., Merrill Lynch, Pierce, Fenner & Beane, and Halsey, Stuart & Co., Inc. **Offering**—Price to public by amendment. **Proceeds**—To redeem outstanding $30,250,000 bonds, prepay promissory notes and pay cost of construction work now authorized. For details see issue of April 11.

Paulsboro (N. J.) Manufacturing Co.
March 29 filed 9,886 shares 6% cumulative preferred (par $100); 31,000 common stock purchase warrants and 31,000 shares of common, issuable upon the exercise of the warrants. **Underwriters**—Butcher & Sherrerd, Philadelphia. **Offering**—1,886 shares of 6% cumulative preferred are offered in exchange (one new share for 10 old shares) for shares of 4% preference stock ($10 par), together with all dividends accrued thereon. Exchange offer is conditioned on purchase of remaining 8,000 shares of 6% cumulative preferred and of the 31,000 common stock purchase warrants by underwriter. **Proceeds**—Purchase or construction of a plant and necessary machinery and equipment. For details see issue of April 4.

Peerless Casualty Co., Keene, N. H. (5/1)
March 8 filed 50,000 shares of common stock (par $5). **Underwriters**—Herrick, Waddell & Co., Inc., New York. **Offering**—Common stockholders given right to subscribe for new shares in ratio of 5 additional shares for each 11 shares held, at $14 per share. For details see issue of March 14.

Pennsylvania Electric Co., Johnstown, Pa.
March 21 filed $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. **Underwriters**—By amendment. Probable bidders include Halsey, Stuart & Co., Inc. (bonds only); Smith, Barney & Co. (preferred only); Kuhn, Loeb & Co., and Lehman Brothers (jointly). **Offering**—Prices to public by amendment. For details see issue of March 28.

Perfex Corp., Milwaukee, Wis.
March 20 filed 7,500 shares 4½% cumulative preferred stock (par $100) and 26,164 shares of common stock ($4 par). **Underwriters**—Wisconsin Co. **Offering**—Common stock is being offered to common stockholders on basis of one share of new common for each five shares held. Price by amendment. Unsubscribed common shares and preferred stock will be publicly offered by underwriters. For details see issue of March 28.

● **Pharmaceutical Organics, Inc., Dover, Del.**
April 9 (letter of notification) 35,350 shares of Class A common stock, par $3. **Underwriters**—Hautz & Engel, New York. **Offering**—Price to public $3 per share. **Proceeds**—Purchase of raw materials, inventories, working capital, etc.

● **Pickering & Co., Inc., Oceanside, Nassau Co., N. Y.**
April 9 (letter of notification) 150 shares of $5.50 non-cumulative preference stock (par $100). There are no underwriters. Price to public, $100 per share. **Proceeds** for working capital.

Piper Aircraft Corp., Lock Haven, Pa.
Feb. 18 filed 150,000 shares of common stock (par $1). **Underwriters**—Hayden, Stone & Co. **Offering**—Price to public will be filed by amendment. For details see issue of Feb. 20.

Public Flyers, Inc., N. Y. (4/25)
April 4 filed 200,000 shares of common stock (par $1). **Underwriters**—Bond & Goodwin, Inc. **Offering**—Price to public $3 per share. **Proceeds**—Payment of notes, purchase of flight equipment, additional hangar facilities, improvement of airport property and other related uses. For details see issue of April 11.

Public Service Co. of Ind., Inc.
March 25 filed 150,000 shares of cumulative preferred stock (par $100). Dividend rate by amendment. **Underwriters**—Names by amendment. Probable bidders include Kuhn, Loeb & Co. and Harriman Ripley & Co. (jointly); Glore, Forgan & Co.; the First Boston Corp. **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. Bids for the purchase of the shares will be received by the company up to 11 a.m. CST April 26. For details see issue of March 28.

Public Service Co. of New Hampshire
March 1 filed 102,000 shares of preferred stock ($100 par). Stock is to be offered at competitive bidding, with dividend rate supplied by amendment. **Underwriters**—By amendment. Probable bidders include Kuhn, Loeb & Co., Harriman, Ripley & Co. and Smith, Barney & Co. (jointly); Kidder, Peabody & Co. and Blyth & Co., Inc. (jointly); Coffin & Burr and the First Boston Corp. (jointly). **Offering**—Stock will first be offered to holders of company's $6 and $5 dividend preferred stock on an a share for share basis, with cash adjustment. **Bids Invited**—Bids for services in soliciting exchanges of preferred shares and for purchase of any new stocks not exchanged will be received by the company up to 12 noon EST April 22. For details see issue of March 7.

Public Service Co. of New Hampshire
March 29 filed 500,000 shares of common stock (par $10). **Underwriters**—Names by amendment. Probable bidders include Kuhn, Loeb & Co.; Harriman, Ripley & Co., and Smith, Barney & Co. (jointly); Kidder, Peabody & Co. and Blyth & Co., (jointly); The First Boston Corp. and Coffin & Burr (jointly). **Offering**—Company will sell at compettiive bidding, for an aggregate price of $5,000,000, not exceeding 500,000 shares of common stock, the number of shares to be determined by each bidder. **Proceeds**—New common and preferred are being issued to retire 117,404 shares of old preferred and serial notes and to provide funds for construction and extension. For details see issue of April 4.

Queen Anne Candy Co., Hammond, Ind. (4/22)
March 28 filed 108,000 shares of common stock (par $1). Shares are being sold by certain stockholders. **Underwriters**—Link, Gorman & Co., Inc., Brailsford & Co., Shillinglaw, Bolger & Co., Kalman & Co., Inc., Straus & Blosser, Herrick, Waddell & Co., Sills, Minton & Co., O. H. Wibbing & Co., Mercier, McDowell & Dolphyn, Berwyn T. Moore & Co., Inc., and Irving J. Rice & Co. **Offering**—Price to public $5.125 per share. For details see issue of April 4.

● **Radio-Electronics Institute of America, Inc., New York**
April 10 (letter of notification) 2,500 5% cumlative preferred and 100,000 shares common. **Underwriters**—Not underwritten. **Offering**—To be offered to the public in units of one share of preferred and 40 shares of common at $100 per unit. **Proceeds**—For electronic training, research and development, etc.

Red Top Brewing Co., Cincinnati, Ohio (4/26)
March 26 filed 150,000 shares of class A common stock (par $1). Shares are being sold by certain stockholders. **Underwriters**—Westheimer & Co., Cruttenden & Co., A. G. Edwards & Sons, Loewi & Co., Stein Bros. & Boyce, the Ohio Company, and Piper, Jaffray & Hopwood. **Offering**—Price to public $10.50 per share. For details see issue of March 28.

Republic Indemnity Co. of Amer., Tucson, Ariz.
March 27 filed 10,000 shares common stock (par $10). Shares are being offered by the company. **Underwriters**—Not underwritten. **Offering**—Company is offering new common to holders of common stock at rate of one share for each two shares of common held at $15 per share. **Proceeds**—To increase the capital and surplus. For details all issue of April 4.

Roberts & Mander Corp., Hatboro, Pa. (4/22)
April 2 filed 283,790 shares of common stock (par $1). Company is offering 175,000 shares and Stroud & Co. Inc. is offering 108,790 shares which it owns. **Underwriters**—Stroud & Co. Inc. **Offering**—Price to public by amendment. **Proceeds**—Company plans to use its share of the proceeds for the payment of $600,000 bank loans, balance for working funds. For details see issue of April 4.

Rockridge Gold Mines Ltd., Toronto, Can.
March 27 filed 300,000 shares of common stock ($1 par). **Underwriters**—Not underwritten. Company has granted an exclusive option dated Feb. 20, 1946, to Morgan U. Kemerer of Toronto to purchase 500,000 treasury shares at 30 cents per share and 500,000 treasury shares at 40 cents per share, payable in Canadian exchange. Mr. Kemerer has assigned to Mark Daniels, 371 Bay Street, Toronto, in consideration of $1, the former's right and option to purchase 300,000 of the 500,000 shares optioned to Mr. Kemerer at 30 cents per share. Mr. Daniels plans to market the shares optioned to him through the medium of a registered broker or brokers in the United States. **Offering**—Price to public is 40 cents per share, U. S. funds. **Proceeds**—Proceeds will be applied to development work, etc. For details see issue of April 4.

St. Joseph (Mo.) Light & Power Co. (4/23)
March 22 filed $3,750,000 first mortgage bonds due April 1, 1976. Bonds will be sold at competitive bidding with successful bidder naming interest rate. **Underwriters**—Names by amendment. Probable bidders include White, Weld & Co.; Halsey, Stuart & Co., Inc.; Harris, Hall & Co. (Inc.); Glore, Forgan & Co., and Harriman, Ripley & Co. (jointly). **Offering**—Price to public by amendment. **Bids Invited**—Bids for purchase of bonds will be received at office of United Light & Power Service Co., 105 West Adams Street, Chicago, up to 12 noon, CST, April 22. For details see issue of March 28.

Salt Dome Oil Corp., Houston, Texas
March 28 filed certificates of interest for 800,000 certificates in overriding royalty in oil, gas and surplus. **Underwriters**—Cohu & Torrey, New York, and Yarnall & Co., Philadelphia. **Offering**—Company is offering the certificates of interest to stockholders on basis of one share interest represented thereby for each share of common stock held at 58 cents per share. **Proceeds**—Exploring and developing. For details see issue of April 4.

Samson United Corp., Rochester, N. Y. (4/25)
March 15 filed 125,000 shares of cumulative convertible preferred stock (par $8). Dividend rate by amendment. **Underwriters**—Burr & Co., Inc. **Offering**—Price by amendment. For details see issue of March 21.

Scranton Electric Co., Scranton, Pa.
March 29 filed 53,248 shares of cumulative preferred stock and 1,214,000 shares common stock (par $5). Common stock is being sold by American Gas & Electric Co. (parent). **Underwriters**—By amendment. Probable bidders include Smith, Barney & Co.; Mellon Securities Corp.; Merrill, Lynch, Pierce, Fenner & Beane, and Kidder, Peabody & Co., (jointly). **Offering**—Price by amendment. **Proceeds**—Net proceeds from sale of preferred, together with treasury funds, will be used to redeem 53,248 shares of $6 preferred at $110 per share. Common shares are being sold by American Gas & Electric Co. For details see issue of April 4.

Scranton-Spring Brook Water Co., Wilkes-Barre, Pa.
Feb. 8 filed $23,500,000 first mortgage bonds, due March 15, 1976, and 100,000 shares of cumulative preferred stock (par $100). Interest and dividend rates by amendment. **Underwriters**—By amendment. Probable bidders include Halsey, Stuart & Co., Inc. (bonds only); Morgan Stanley & Co.; Kuhn, Loeb & Co., Lee Higginson Corp. and Smith, Barney & Co. (jointly); Mellon Securities Corp. **Offering**—Bonds and preferred stock will be sold at competitive bidding. For details see issue of Feb. 14.

Segal Lock & Hardware Co., Inc., N. Y.
March 30 filed 738,950 shares of common (par $1). **Underwriters**—Floyd D. Cerf & Co. **Offering**—Holders of common stock, 7% preferred stock and $2.50 cumulative preferred stock are given right to subscribe to new common shares at rate of one share of common for each two shares of any such stock held. Price by amendment. **Proceeds**—Purchase of additional machinery and equipment for modernization of present facilities, etc. For details see issue of April 4.

● **Securities Acceptance Corp., Omaha**
April 12 (letter of notification) 12,500 shares common ($4 par). Price to public $10 per share. No underwriting.

Selected Industries, Inc., N. Y. (4/24)
March 30 filed $6,900,000 debentures due April 1, 1961. Interest rate by amendment. **Underwriters**—Union Securities Corp. **Offering**—Price to public by amendment. **Proceeds**—To pay $6,900,000 bank loans. For details see issue of April 4.

Sharon Steel Corp., Sharon, Pa. (4/21)
April 2 filed 150,000 shares common (no par). **Underwriters**—Mellon Securities Corp. **Offering**—Price to public by amendment. **Proceeds**—To redemption of outstanding convertible $5 preferred stock. For details see issue of April 4.

Sinclair Oil Corp., N. Y.
Dec. 26 filed 150,000 shares of common stock (no par). Shares are being sold by H. F. Sinclair. **Underwriters**—Kuhn, Loeb & Co. **Offering**—Price to the public based on market. For details see issue of April 4.

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Securities Now in Registration

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Sonotone Corp., Elmsford, N. Y. (4/24)

March 25 filed 60,000 shares $1.25 cumulative convertible preferred stock, series A (par $20). **Underwriters**—Van Alstyne, Noel & Co. **Offering**—Price to public is $25 per share. For details see issue of March 28.

Standard Steel Spring Co., Corapolis, Pa. (4/29)

April 10 filed 100,000 shares of convertible preferred stock (par $50). Dividend rate by amendment. **Underwriters**—Goldman, Sachs and Co. **Offering**—The price to public by amendment. **Proceeds**—Principally for expanding existing facilities for manufacture of bumpers for passenger automobiles. For details see issue of April 11.

Steep Rock Iron Mines Ltd., Ont., Can. (4/24)

March 27 filed 500,000 shares of capital stock (par $1). **Underwriters**—Otis & Co. **Offering**—Price to public by amendment. **Proceeds**—Net proceeds will be added to the general funds and will be available for general corporate purposes. For details see issue of April 4.

Stromberg-Carlson Co., Rochester, N.Y. (4/25)

March 19 filed 67,731 shares of 4% convertible preferred stock (par $50). **Underwriter**—First Boston Corp. **Offering**—Company is offering to holders of common stock of record April 8 pro rata rights to subscribe to new preferred on basis of one share of preferred for each four shares of common held at $50 per share. Rights expire April 24 at 3 p.m. For details see issue of Mar. 21.

Super-Cold Corp., Los Angeles, Calif.

March 29 filed 200,000 shares common stock (par $1). **Underwriters**—Sutro & Co. and Van Alstyne, Noel & Co. **Offering**—Price to public $6 per share. **Proceeds**—Approximately $575,000 will be applied in payment of existing current liabilities, including bank loans; $200,000 for purchase of machinery and equipment, and remainder for working capital. For details see issue of April 4.

• **Sylvania Electric Products, Inc., N. Y. (4/18)**

April 11 (letter of notification) 2,600 shares maximum, but not to exceed $100,000. Shares are being sold by executors of the estate of B. G. Erskine. **Underwriters**—Sales will be effected largely or wholly through Paine, Webber, Jackson & Curtis on the New York Stock Exchange. **Price** at market.

Taca Airways, S. A., N. Y. (4/30)

March 30 filed 500,000 shares common (par $5). **Underwriters**—Hallgarten & Co. and G. H. Walker & Co. **Offering**—Price to public by amendment. **Proceeds**—No specification of the net proceeds has been made. For details see issue of April 4.

• **Terrell Electrical Products Co., Inc., Washington, D. C.**

April 1 (letter of notification) 160 shares. Selling price is approximately $90 per share to raise funds for further research and exploration of a patent covering a daylight bulb, a new form of lighting. At present there are no underwriters of the securities.

Tucson (Ariz.) Gas, Electric Light & Power Co.

March 29 filed 147,000 shares common stock (no par). Stock constitutes all of the outstanding common stock of Tucson and is owned by Federal Light and Traction Co. **Underwriters**—By amendment. Probable bidders include Harriman Ripley & Co.; The First Boston Corp. and Blyth & Co., Inc. **Offering**—Federal will offer the stock for sale at competitive bidding and price to public will be filed by amendment.

• **Twin Peaks Mine, Inc., Seattle, Wash.**

April 11 (letter of notification) 400,000 shares of common. Price to public 15 cents per share. No underwriters.

Union Electric Co. of Missouri

March 29 filed 130,000 shares of preferred stock (no par). Dividend rate by amendment. **Underwriters**—By amendment. Probable bidders include White, Weld & Co., and Shields & Co. (jointly); Dillon, Read & Co. Inc.; Lehman Brothers, and Blyth & Co., Inc. **Offering**—New preferred will be issued in connection with an exchange offer and company will ask for competitive bids with respect to exchange plan and purchase of the new stock. **Purpose**—To refinance old preferred stock at a lower dividend rate. For details see issue of April 4.

Union Wire Rope Corp., Kansas City, Mo.

Feb. 4 filed 42,000 shares capital stock (no par). **Underwriters**—P. W. Brooks & Co., Inc., New York. **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. For details see issue of Feb. 7.

• **United States Rubber Co., N. Y. (4/30)**

April 11, $40,000,000 2½% debentures, due May 1, 1976. **Underwriters**—Kuhn, Loeb & Co. **Offering**—Price to public by amendment. **Proceeds**—To provide additional working capital, for expansion of company's business through the development and acquisition of new lines of products; for increasing capacity; for constructing or acquiring additional domestic and foreign plants for the manufacture of various products; for research and technical development work, and for rehabilitation and restoration of foreign plantation properties if and when repossessed by subsidiaries of the company. The company has authorized the purchase, enlargement and equipment of a plant at Port Elizabeth, South Africa, at a cost estimated at approximately $5,000,000 for the manufacture of tires, tubes and other rubber goods.

United Transit Co., Richmond, Va. (4/22)

March 29 filed an intermediate number of common shares (par $1). The common shares being offered are outstanding and are owned by Equitable Securities Corp., A. C. Allyn & Co., Inc., and Paul M. Davis of Nashville, Tenn. **Underwriters**—Harriman Ripley & Co., Inc. **Offering**—Price to public by amendment. For details see issue of April 4.

Universal-Cyclops Steel Corp., Bridgeville, Pa.

Feb. 13 filed 3,500 shares of common stock (letter of notification). Shares are for account of certain stockholders. **Underwriter**—A. G. Becker & Co.

• **United Wallpaper, Inc., Chicago (5/4)**

April 15 filed 40,000 shares cumulative convertible preferred stock (par $50). Dividend rate by amendment. **Underwriters** — Hemphill, Noyes & Co. **Offering** — Price to public by amendment. **Proceeds** — Net proceeds from sale of preferred stock together with proceeds from sale of $2,000,000 3% note will be used for corporate purposes, including enlargement and equipping of a factory building at Montgomery, Ill., at cost of $2,350,000. Other funds will be used to extent of $710,500 to reimburse treasury for funds expended to redeem 6% prior preference stock and $650,000 for the erection of a building at Appleton, Wis., and for removal of machinery and equipment; balance to working capital. **Business**—Manufacture of wallpaper and related products.

Utah Power & Light Co., Salt Lake City

March 20 filed $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. **Underwriters**—Names by amendment. Probable bidders include Halsey, Stuart & Co., Inc., and The First Boston Corp. **Offering**—Price to the public will be filed by amendment. For details see issue of March 28.

Utility Appliance Corp., Los Angeles (4/29)

March 29 filed 80,000 shares cumulative preferred stock, $1 dividend convertible series ($15 par), and 80,000 shares common stock ($1 par). **Underwriters**—Bateman, Eichler & Co., Los Angeles. **Offering**—Price to public is $16.625 a share for preferred and $5.25 a share for the common. **Proceeds**—Purchase of business and assets of Gaffers & Sattler and Occidental Stove Co.; additions and tooling and additional working capital. For details see issue of April 4.

Verity Porcupine Gold Mines, Ltd., Tor., Can.

March 12 filed 250,000 shares of common stock. **Underwriters**—Mark Daniels & Co., 371 Bay Street, Toronto, Canada, is named underwriter. **Offering**—Price to public is 50 cents per share. For details see issue of March 14.

Virginia Red Lake Mines, Ltd.

June 24 filed 220,000 shares of capital stock (par $1—Canadian). **Underwriters**—Willis E. Burnside & Co., New York. **Offering**—Offering price to public 28 cents United States funds. For details see issue of Aug. 2, 1945.

Yank Yellowknife Gold Mines, Ltd., Tor., Ont.

Feb. 13 filed 1,000,000 shares of common stock (par $1). **Underwriters**—J. J. Carrick, Ltd., Toronto, Canada. **Offering**—Price to public 30 cents per share, United States funds. For details see issue of Feb. 21.

Walworth Co., N. Y. (5/7)

March 29 filed $4,500,000 convertible debentures due May 1, 1976, and 20,000 shares of cumulative convertible preferred stock (no par). Interest and dividend rates by amendment. **Underwriters**—Paine, Webber, Jackson & Curtis and E. H. Rollins & Sons, Inc. **Offering**—Price to public by amendment. **Proceeds**—$4,590,000 to redeem first mortgage 4% bonds due April 1, 1955; $619.120 to restore working capital expended for redemption of 6% preferred; $800,000 for improved foundry and finishing equipment; $220,000 for acquisition of two warehouses; balance for working capital. For details see issue of April 4.

Weeden & Co., San Francisco, Calif.

March 28 filed 10,000 shares 4% convertible preferred stock ($50 par) and 1,501.6 shares common (no par). **Underwriters** — None named. **Offering** — Price of preferred stock is $50 per share and of the common stock $40 per share. **Proceeds**—General funds for use in operations. For details see issue of April 4.

• **Western Tin Mining Corp., Washington, D. C.**

April 8 (letter of notification) 500,000 shares common stock, par one cent. **Underwriters**—No underwriters. It is proposed to sell 200,000 shares at 30 cents and 300,000 shares at 80 cents. **Proceeds**—To prove the extent of a tin deposit. The prices are graduated for no reason except that first buyers before property is proven, are entitled to consideration in price, the letter stated. It is added $60,000 ought to definitely prove values.

Young Radiator Co., Racine, Wis.

Jan. 29 filed 100,000 shares of common stock (par $1); also registered 40,000 shares of common for issuance upon exercise of warrants. **Underwriters**—Van Alstyne, Noel & Co. **Offering**—Price to public $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 issue to stockholders on recapitalization and 20,000 are being sold to underwriters at 10 cents per warrant share. Offering postponed indefinitely. For details see issue of Feb. 7.

Prospective Security Offerings

(NOT YET IN REGISTRATION)

• INDICATES ADDITIONS SINCE PREVIOUS ISSUE

Air Services, Inc., New York

April 1 company was reported planning sale of 150,000 shares of common stock through B. G. Cantor & Co., New York, as underwriter. Price about $2 per share. Company's headquarters will be located within eight miles of New York City. Principal business will be student training and charter service.

Alden's, Inc., Chicago, Ill.

May 14 stockholders will vote on approving an issue of 50,000 preferred shares (par $100). First series of new preferred will consist of 40,000 shares, (dividend rate not to exceed 4¼%). Proceeds for working capital. Lehman Brothers and associates will be underwriters.

• **American Bosch Corp.**

April 16 reported that Alien Property Custodian may shortly ask for bids on 535,000 shares (77.24%) of the stock of the corporation. Probable bidders include Glore, Forgan & Co. and Lehman Brothers (jointly), and Blyth & Co., Inc., and Merrill Lynch, Pierce, Fenner & Beane (jointly).

• **American Brake Shoe Co., New York**

April 23 stockholders will vote on increasing common from 1,000,000 shares to 2,000,000 shares. Action is being taken to have stock available if and when needed. Company has no present plans to issue the stock. Previous underwriters for preferred stock included Morgan Stanley & Co., Inc., Drexel & Co., Mellon Securities Corp., Harris, Hall & Co. (Inc.), and Spencer Trask & Co.

• **American Gas & Power Co.**

Under amended plan approved by SEC April 10, American Gas & Power Co. (name to be changed to Minneapolis Gas Co.) reserves the right to make a public offering of some part (not in excess of 874,078 shares) of its new common stock.

Arkansas Power & Light Co., Little Rock, Ark.

March 30 reported company planned to issue 290,000 shares common stock (par $12.50) and $5,000,000 in promissory notes, for purpose of paying current promissory notes and finance expansion program.

Art-Craft Brier Pipe Co., Brooklyn, N. Y.

April 12 company has arranged the sale of 100,000 shares of common stock at $2.25 per share. Proceeds for expansion. **Underwriter**—B. G. Cantor & Co., New York.

• **Atlantic Coast Line RR.**

April 16 stockholders voted to authorize a total of 1,350,000 common shares (no par value) and 150,000 preferred shares (par $100). Outstanding 823,427 common shares (par $100) would be exchanged share for share for new no par stock and the 5% existing preferred would remain outstanding and designated "original preferred stock" and the new preferred would be designated as "series preferred stock" and would be issued as directors authorize. In view of present market conditions, C. McD. Davis, President, states that directors are of opinion that additional capital stock should be made available for debt retirement if favorable opportunity offers.

● **Atlas Imperial Diesel Engine Co., Oakdale, Calif.**
April 19 stockholders will vote on splitting common stock 2 for 1 and on creating new preferred issue of 300,000 (par $10) of which 150,000 shares would be issued and sold to finance purchase of constituent company, improvements, etc. Blyth & Co., Inc., probable underwriters.

Beneficial Industrial Loan Corp., New York
April 3 directors voted to offer common stockholders right to subscribe to one new share for each five shares held, subject to effectiveness of registration statement to be filed with SEC at early date. Eastman, Dillon & Co. probable underwriter.

Brooklyn (N. Y.) Union Gas Co.
Stockholders will vote May 7 on approving a plan to refund $29,240,000 first mortgage 3½s and $11,850,000 4% debentures. Plan is said to provide for $10,000,000 new preferred stock, mortgage bonds and serial notes to be sold through competitive bidding. Approval of stockholders and New York Public Service Commission necessary. Probable bidders will include Halsey, Stuart & Co., Inc. (bonds only), Mellon Securities Corp. and Harriman Ripley & Co.

● **(The) Budd Co., Philadelphia**
June 11 stockholders of Edward G. Budd Co., and Budd Manufacturing will vote on merging, the surviving company to be The Budd Co. Additional capital would be provided through sale of 537,000 shares of common stock to be initially offered to stockholders on a one for five basis. New company would also sell $30,000,000 of debentures to retire existing indebtedness. Probable underwriters are Blyth & Co., Inc., and Carl M. Loeb, Rhodes & Co.

Caterpillar Tractor Co., Peoria, Ill.
March 29 company announced it was negotiating with underwriters for sale of $20,000,000 of securities, probably in 10-year debentures, proceeds to be used to meet cost of proposed expansion program. Blyth & Co., Inc., probable underwriter.

Central & Southwest Utilities Co., Wilmington, Del.
Third amended plan filed with SEC in March provides that company be merged with American Public Service Co. into corporation known as Central & South West Corp. Sufficient number of shares of new company would be sold at competitive bidding to provide funds, not otherwise supplied, to retire outstanding preferred stocks of Central and American. Possible bidders: Glore, Forgan & Co.; Lehman Brothers-Lazard Freres & Co. (Joint); Smith Barney & Co.-Harriman, Ripley & Co. (Joint); Blyth & Co., Inc., Stone & Webster Securities Corp. and First Boston Corp. (Joint).

City Investing Co., New York
May 2 stockholders will vote on splitting common shares 6 for 1 and approving $5,000,000 of debentures to provide additional funds. Probable underwriter, The First Boston Corp.

Columbus & Southern Ohio Electric Co., Columbus, Ohio
Registration of 744,000 shares of common stock expected at early date as a preliminary to divestment by Continental Gas & Electric Co., parent pursuant to Utility Holding Company Act. Sale will be by public bidding.

Consolidated Edison Co. of New York, Inc.
March 18 stockholders granted management's request to mortgage system's properties said to be forerunner to refund $304,240,000 callable debentures. Contemplated new bonds, to be sold at competitive bidding, would initially, it is said, involve $100,000,000. Morgan Stanley & Co. probable underwriters.

Consumers Power Co., Jackson, Mich.
March 14 filed with Michigan P. U. Commission application to sell at competitive bidding 876,568 common shares, after capital adjustment. Proceeds for extensions. Probable bidders include Morgan Stanley & Co.; Lehman Brothers; Harriman, Ripley & Co., and Mellon Securites Corp. (jointly).

Detroit Edison Co., Detroit, Mich.
March 19 committee of directors formed to consider refinancing of $65,000,000 3½s and 4s. Probable bidders include: Mellon Securities Corp., First Boston Corp., Dillon, Read & Co. Inc., Coffin & Burr, Halsey, Stuart & Co., Inc., and Spencer Trask & Co.

● **Eastern Racing Association, Inc.**
April 6 U. S. District Court for Massachusetts has ordered receivers of Aldred Investment Trust to offer at public sale May 1 at 11 a.m., at Copley-Plaza Hotel, Boston, 14,991 shares of E. R. A. stock.

● **El Paso Natural Gas**
April 11 $40,000,000 financing through first mortgage bonds and preferred and common stock possible when expansion program has approval of Federal Power Commission and stockholders. Probable underwriters include White, Weld & Co., and Stone & Webster Securities Corp.

● **Greer Hydraulic Corp.**
April 17 reported company is to file letter of notification for common stock (under $300,000). Probable underwriters, Townsend, Graff & Co.

● **Heyden Chemical Corp., N. Y.**
May 3 stockholders will vote on financing program calling for 2½-for-1 split-up of common stock and authorization of 200,000 shares of new preferred stock (par $100). Company intends to issue from 80,000 to 120,000 shares of new preferred and use part of proceeds to retire $4,800,000 4% preferred stock now outstanding and the balance for new capital purposes. Probable underwriters include A. G. Becker & Co. Inc.; Lehman Brothers; Merrill Lynch, Pierce, Fenner & Beane; Hornblower & Weeks, and Ladenburg, Thalmann & Co.

Hudson Motor Car Co., Detroit, Mich.
April 1 directors voted to offer stockholders rights to subscribe for one additional share for each seven shares held, requiring approximately 228,000 shares. Proceeds for working capital. W. E. Hutton & Co. will be underwriter.

Industrial Rayon Corp., Cleveland, Ohio
March 27 stockholders increased authorized common from 1,200,000 shares (no par) to 3,000,000 shares (par $1). The outstanding 759,325 shares were split 2 for 1, increasing outstanding shares to 1,518,650. Unissued shares will be available for issuance when needed for future expansion. Kuhn, Loeb & Co., Harriman, Ripley & Co. and associates underwrote preferred financing in 1944.

International Minerals & Chemicals Corp., Chicago, Ill.
May 20 stockholders will vote on approving sale of 145,834 unissued common shares. It is proposed to give stockholders rights to purchase additional shares on basis of one new share for each five common shares held. White, Weld & Co. will be underwriters.

International Paper Co., New York, N. Y.
Stockholders will be asked May 8 to authorize an issue of 400,000 shares of a new class of preferred, which company expects to offer share for share for existing preferred.

● **Jersey Central Power & Light Co.**
April 16 New Jersey Board of Public Utility Commissioners authorized company to issue $12,500,000 4½% cumulative preferred stock (par $100), proceeds to be used to retire 5½%, 6% and 7% preferred issues. Sale will be through competitive bidding. Probable bidders may include Blyth & Co., Inc.; E. H. Rollins & Sons Inc.; Eastman, Dillon & Co., and W. C. Langley & Co.; Merrill Lynch, Pierce, Fenner & Beane-White, Weld & Co. (jointly); Glore, Forgan & Co., and The First Boston Corp.

Kansas City Southern Ry., Kansas City, Mo.
May 14 stockholders will vote on proposal to issue $14,000,000 additional first mtge. bonds as part of program to refund $14,000,000 Louisiana & Arkansas Ry. 1st Mtge. 5s.

Kurman Electronic Corp.
Company, manufacturer of various electrical relays and clocks, is reported planning the sale of 100,000 shares of common stock through B. G. Cantor & Co. Price about $3 per share.

Michaels Brothers, New York
April 8 it was reported company plans new financing, through common stock, with Burr & Co. as underwriters.

Michigan Gas & Electric Co., Three Rivers, Mich.
April 1 filed with SEC application to sell (a) $3,500,000 first mortgage bonds due April 1, 1976, (b) 14,000 preferred shares (par $100) and (c) $400,000 common stock (par $10). All issues would be sold through competitive bidding. Probable bidders include Blyth & Co., Inc.; Kidder, Peabody & Co.; The First Boston Corp.; Harris, Hall & Co. (Inc.); Merrill Lynch, Pierce, Fenner & Beane, and Ira Haupt & Co.

Miller-Wohl Inc., New York
May 1 stockholders will vote on approving a split-up of common stock and creation of 40,000 shares of new 4½% cumulative preferred stock (par $50). New preferred if sold will probably be underwritten by Allen & Co.

Mountain States Telephone & Telegraph Co., Denver, Colo.
March 30, it was reported that company is preparing to issue $30,000,000 new debentures. Morgan Stanley & Co. and Halsey, Stuart & Co., Inc. are probable bidders.

New England Gas & Electric Association, Cambridge, Mass.
March 27 filed amended recapitalization plan with SEC providing for sale at competitive bidding of (a) 22,500,000 20-year sinking fund collateral trust bonds, plus (b) sufficient shares of new common stock out of the original issue of 2,300,000 shares to supply $11,500,000. Proceeds will be used to retire at par and interest outstanding debentures. Bidders may include Halsey, Stuart & Co., Inc. (for bonds only). Bear, Stearns & Co. (for stock only). First Boston Corp., White, Weld & Co.-Kidder, Peabody & Co. (Joint).

● **Northern Indiana Public Service Co.**
April 17 reported that company has under consideration the refunding of its $45,000,000 series C 3⅛s with issue of about same size carrying lower coupon rate. Probable bidders, Halsey, Stuart & Co. Inc., and Harriman, Ripley & Co.

Northern Pacific Ry., St. Paul, Minn.
It was reported April 10 that company has under consideration the refunding of $55,000,000 collateral trust 4½% bonds due 1975 and the issuance of a new series of collateral trust bonds. Prospective bidder, Morgan Stanley & Co.

● **Norway, Kingdom of**
It is reported that as a result of informal discussions between representatives of Norway and American bankers, the public offering of $100,000,000 bonds in the autumn to meet that country's financial needs has become a possibility. Probable underwriters would include Lazard Freres & Co., Inc.; Kuhn, Loeb & Co.; Glore, Forgan & Co.; Kidder, Peabody & Co.; Ladenburg, Thalmann & Co., and Halsey, Stuart & Co. Inc.

Ohio Edison Co., Toledo, Ohio
March 21 filed with Ohio P. U. Commission application to sell through competitive bidding 204,153 shares of common stock. Proceeds for expansion, etc. Probable bidders include First Boston Corp.; Glore, Forgan & Co.; White, Weld & Co.-Shield & Co. (Joint); Morgan Stanley & Co.

● **Pacific Can Co.**
Reported that company may announce shortly details of a proposed issue of additional common stock to finance a $2,000,000 expansion program now under way.

Pacific Lighting Corp., San Francisco
Possibility of the company issuing $15 000,000 first mortgage bonds upon completion of pipe line facilities foreseen. Proceeds would be used to replenish working capital. Probable underwriters include Blyth & Co., Inc.

Pennsylvania Edison Co., Altoona, Pa.
March 28 company applied to the SEC for permission to issue (a) $23,500,000 first mortgage bonds series of 1976, and (b) 101,000 shares of series C cumulative preferred stock, with a dividend rate not to exceed 4%. Both issues are to be sold through competitive bidding.

Pere Marquette Ry.
April 25 company will open bids for purchase of $1,300,000 issue of serial equipment trust certificates of 1946. Bids will be opened at noon and no bids for less than 99 will be considered. Successful bidder will name dividend rate. Possible bidders include Halsey, Stuart & Co., Inc., and Salomon Brothers & Hutzler.

Philadelphia Dairy Products Co., Philadelphia Pa.
May 13 stockholders will vote on increasing common stock from 125,000 shares (25c par) to 500,000 shares to take care of future financing.

Philco Corp., Philadelphia
May 17 stockholders will vote on increasing capital stock from 2,000,000 shares of common to a total of 3,370,057 shares, consisting of 250,000 preferred shares (par $100), 2,500,000 common shares (par $3), and 620,057 class B stock (par $3). Purpose is to secure permanent capital as may be required for future expansion. Smith, Barney & Co. probable underwriter if sale of securities takes place.

Pittston Co., Hoboken, N. J.
Company it is understood expects to register at an early date for public offering an issue of 15-year debentures and additional income debentures.

● **Plough, Inc.**
April 16 stockholders voted to change par of common from $7.50 to $5 per share and issue one additional share for each two shares held and authorized the issuance of 150,000 additional shares. Peltason, Tenenbaum Co., St. Louis, possible underwriter if financing is undertaken.

● **Rochester (N. Y.) Telephone Corp.**
New York P. S. Commission Apr. 10 in withholding company's request to place privately $6,238,000 of new 2½% first mortgage bonds to refinance outstanding bonds and notes, suggested a broader type of financing and advised company to consider marketing the new securities through competitive bidding. Probable bidders will include Halsey, Stuart & Co., Inc. if company decides on public financing.

Southern Natural Gas Co.
Company has under consideration a plan for refunding its approximately $15,000,000 of mortgage bonds and serial notes outstanding, stockholders were advised in the annual report for 1945. Probable underwriters included Halsey, Stuart & Co., Inc.; Kidder, Peabody & Co. and Blyth & Co., Inc. (jointly).

Standard Gas & Electric Co., Chicago, Ill.
Standard Power & Light Corp. has requested permission of SEC to sell, either through private sale or in the public markets 1,160,000 shares of common stock of Standard Gas & Electric Co. Sale is preliminary to liquidation of the Power & Light as ordered by the SEC.
(Continued on page 2130)

Prospective Security Offerings

● INDICATES ADDITIONS SINCE PREVIOUS ISSUE

(Continued from page 2129)

Union Electric Co. of Missouri

It is rumored that company contemplates refunding its outstanding $90,000,000 3⅜s of 1971 with lower cost obligations. Possible bidders would include Dillon, Read & Co. Inc., and Halsey, Stuart & Co., Inc.

● **United States Rubber Co., New York, N. Y.**

April 16 stockholders voted to increase authorized common from 1,918,412 shares to 2,500,000 shares, so as to have available shares for the purchase of additional property, creation of additional working capital and other corporate purposes. No immediate issuance of additional stock contemplated, it is said.

● **Western Pacific RR.**

April 11 ICC conditionally authorized company to issue $10,000,000 first mortgage bonds, series B, due Jan. 1, 1981, proceeds to be used to refund a like amount of first mortgage 4% bonds due Jan. 1, 1974, and held by RFC. Interest rate to be specified in bids. Probable bidders include Blyth & Co., Inc.; Bear, Stearns & Co.; Halsey, Stuart & Co. Inc.; Merrill Lynch, Pierce, Fenner & Beane; Shields & Co., and Glore, Forgan & Co.

Yonkers (N. Y.) Electric Light & Power Co.

Jan. 21 company and parent Consolidated Edison Co. of New York, Inc. applied to New York P. S. Commission for authority to issue $9,000,000 30-year debs., int. rate not to exceed 2¾%, to be guaranteed by parent. Issue to be sold through competitive bidding. Possible bidders include Halsey, Stuart & Co., Inc.; Morgan Stanley & Co.; Lehman Bros., Harriman Ripley & Co. and Union Securities Corp. (Joint); Blyth & Co., Inc.; Shields & Co. and White, Weld & Co. (Joint); W. C. Langley & Co.; Merrill, Lynch, Pierce, Fenner & Beane and Kidder,

● **York County (Pa.) Gas Co.**

Directors have approved a tentative financing plan under which all present debt (Dec. 31, 1945, $2,482,300) would be retired. Plan, in addition to issuance of $459,000 bank loan and sale of 3,660 shares of Pennsylvania Gas & Electric Co. preferred now owned, calls for the sale of $1,700,000 new first mortgage bonds.

SEC Would Prohibit Allotments Of New Issues to "Insiders"

(Continued from page 2071)

in the accounts of their partners, officers and key employees. In many cases such shares were almost immediately resold by the partners, officers and employees at prices higher than the specified public offering price, frequently before any payments were made therefor. (2) In other cases, members of the selling group on the initial date of the offering placed a substantial portion of their allotted shares in their firm's trading account. Such shares, instead of being offered at the public offering price, were sold at higher prices in the Street, i.e., to other brokers and dealers on a professional trading basis. (3) Certain dealers who were not members of either group, having acquired shares at the public offering price less a dealer's concession, without making any attempt to distribute the shares to their customers at the specified price, withheld them for their own accounts. These shares were within a very short time sold in the Street at higher prices. (4) Some firms were found who placed their alloted shares in the firm trading account for resale in the Street at the same time they were accepting purchase orders from customers. They executed the customers' orders by purchasing from dealers at prices higher than the specified public offering price instead of supplying the stock from their unsold allotment.

"The effect of such actions is to mislead the public, since not only have the underwriters represented that a stated number of shares were to be publicly offered at a specified price, but shortly after the commencement of such offering they have stated that the issue had been heavily over-subscribed and that the available supply was exhausted.

"It is notorious that within recent times the general investing public has been more than eager to put its money into new stock issues. It has been generally accepted by the investing public and the financial community that such issues would be bona fide offered to the public at the price specified in the registration statement and prospectus. To make a wide distribution of a new issue, it is traditional that there be underwriters, selling groups and distributing dealers. The usual pattern followed is to allot a number of shares to the selling groups and through them to other distributing dealers at prices equal to the stated public offering price less concessions. The very purpose of granting concessions from the public offering price to dealers is to compensate them for their assistance in making the distribution to the public at large. At a time when public demand for a new issue is stimulated by the normal distribution and sales process and by reports that the public demand has resulted in an over-subscription of the issue, the practices enumerated above, which artificially restrict the supply of stock at the public offering price, are a major factor in driving the price of the stock above the public offering price.

"It is the Commission's view that not only are the practices enumerated above contrary to accepted business ethics and practices, but they are against the public interest, since they contribute to disorderly marketing of new securities and deceive and mislead the investing public. In order to clarify any doubts in the financial community as to the propriety of such practices, the Commission requested its staff to recommend some means of preventing and curbing these practices. The staff has suggested a rule under the provisions of Section 15 (c) (2) of the Securities Exchange Act of 1934, a copy of which is set forth below. The rule so recommended is being circulated for comment and suggestions. Any counter proposals designed to resolve the problem are invited. The Commission requests that comments and suggestions of interested persons be sent to the Director of the Trading and Exchange Division on or before May 1, 1946."

The "Chronicle" invites comments from underwriters and dealers on the views expressed above by the Commission and on the proposed rule appearing below. Where requested, comments will be published anonymously. Letters should be addressed to Editor, Commercial & Financial Chronicle, 25 Park Place, New York 8, N. Y.

Proposed Rule X-15C2-3

(a) The term "fraudulent, deceptive, or manipulative act or practice," as used in section 15 (c) (2) of the Act, is hereby defined to include any act or practice of a broker or dealer who receives a concession from the public offering price in connection with any distribution of securities registered pursuant to the Securities Act of 1933 or exempted pursuant to Regulation A under that Act, or who otherwise participates in any such distribution, which act or practice is effected for the purpose of distributing any of such securities above the initial public offering price specified in the prospectus filed pursuant to the Securities Act of 1933 or the letter of notification filed pursuant to Regulation A.

(b) In order to prevent any act or practice defined as "fraudulent, deceptive or manipulative" in paragraph (a) of this rule, no such broker or dealer shall make use of the mails or of any means or instrumentality of interstate commerce to sell or to induce or attempt to induce any persons to buy, otherwise than on a national securities exchange, any security comprising an undistributed part of any such offering unless (1) the sale or offer is part of a bona fide attempt to distribute the security and is not above the initial public offering price specified in the prospectus or letter of notification, or (2) such broker or dealer has made a bona fide attempt for a reasonable time to distribute the security at no more than such public offering price. No sale or offer shall be deemed to be a part of a bona fide attempt to distribute a security where such sale or offer is to a partner, officer, director, or employee of such broker or dealer or to any person controlling, controlled by, or under common control with such broker or dealer or to any account in which such broker or dealer or any such person has a beneficial interest.

(c) This rule shall not apply (1) to any sale or offer of a security initially retained for investment, pursuant to a sepecific disclosure to that effect made in the prospectus or letter of notification, by any person named therein as an underwriter, or (2) to any sale or offer of a security acquired by any broker or dealer more than 30 days after the date of the initial public offering, or (3) to any sale of a redeemable security issued by a registered investment company within the meaning of the Investment Company Act of 1940.

The Interest Rate Dilemma

(Continued from page 2074)

satisfactory to me. Meanwhile, the discussion of low interest rates has grown. May I add to what I have said in the aforementioned article the following remarks:

It has been argued that raising interest rates on Government bonds in times of otherwise low interest rates would only result in a premium for the bonds—a premium which would flow to the speculator rather than to the investor. However, the argument shows that the proposals of those in favor of higher interest rates are not correctly understood. Indeed, if one begins by raising the interest rates on Government bonds nothing is changed but that the speculator can pocket unwarranted profits. Discount policy with the aim of combating inflation begins with the raising of the interest rates of the Federal Reserve System to a height which corresponds to the actual scarcity of credits prevailing at the time. Judging from historical experiences interest rates between 4 and 5% or even higher would be necessary to prevent new money getting into circulation and to syphon back into the Federal Reserve Banks money hoarded and threatening of being spent.

Of course with such rediscount rates Government loans would not be issuable at rates between ⅞ and 2½%. They would have to yield much higher. Under such circumstances these higher yielding Government bonds would not sell at a premium. What needs to be emphasized is that it is primarily the rediscount rates of the Federal Reserve System which have to be raised. The fixing of a higher yield on Government securities is a secondary step which would be taken as a consequence of the primary step of the Federal Reserve Board.

The repercussions of higher interest rates on the tax burden of the country has been widely discussed. Without going into details or entering this discussion at this juncture, I would like only to ask: If the argument of those who deny the dangers of a huge Government debt because "a Government debt internally held is no debt at all" is correct. then why is this argument no longer valid when higher interest rates are advocated for the fight against inflation? Cannot the higher interest rates on the Government debt be disregarded as are interest charges when deficit spending is discussed?

However, the threat of inflation not only puts to test the wisdom of the low interest financing of the Government debt. It also puts to test the validity of the easy money philosophy in general. This easy money philosophy starts from the assumption — as does Lord Keynes' "General Theory of Employment, Interest and Money" from which it received its theoretical foundation—that low interest rates incite credit expansion

(Continued on page 2131)

Hemphill, Noyes Offers Avon Allied Stocks

A group of investment bankers headed by Hemphill, Noyes & Co., F. S. Moseley & Co. and H. F. Boynton & Co., Inc. on April 16 offered 35,000 shares of Avon Allied Products, Inc. 4% cumulative preferred stock ($50 par), at $51 per share, plus accrued dividends from April 1, 1946, and 100,000 shares of no par common stock at $19 per share. This offering represents the first public financing by the company which was started as an individual enterprise in 1886.

Of the preferred stock offered, 20,200 shares are being sold by the company and 14,800 shares by stockholders. All of the common stock is being offered by selling stockholders.

Part of the proceeds of the 20,200 shares of preferred being sold by the company will be used to make a loan of $500,000 to a subsidiary, Avon Products, Inc., in order that the latter company may make a payment of a like amount in reduction of its ten-year 2¼% bank note, now amounting to $1,750,000. The balance of the proceeds, together with other funds in the treasury of the Company, will be used to expand and modernize the facilities of the Company and its subsidiaries.

Political Issues Engulf UN

(Continued from first page)

letters from Franco to Hitler. Unfortunately, however, for the Russian argument is it that these letters were dated 1940 and 1941, when the Moscow foreign office was just as "palsy-walsy" with Herr Ribbentrop. In any event, can the United Nations as an organization permanently take action because of "slacker" behavior that was pracitised during the war? And hasn't the Organization gone as far as it should in having barred Spain from membership?

How can a league of nations, adjudicating for peace on a world-wide scale, continue to carry on a war permanently—as joint allies? And how can the Organization act as a continuing police force, poking its nose into the internal affairs of a country, either whenever it disapproves of its form of government, or when it suspects it of not being equally "peace-loving"?

It is not clear how far the Polish-Soviet Communist team wants the UN to go. If it is subsequently going to get to economic sanctions, in accordance with France's expressed demand, it must be realized that this is considered a war measure. Thus stringent enemy steps might be taken for a longer period than against Germany or Japan.

To make his case fit the Charter, Mr. Lange cleverly emphasized that the implications are **external**. Then it must be asked how the Council is going to determine at just what stage matters of **internal** jurisdiction become **external** matters.

In listening to the debate realistically one cannot avoid the impression that it is the indisputably undemocratic form of the present Spanish government which really constitutes the focal point of the agitation. And it should be seen that the UN body cannot possibly forage around the world cleaning up sovereign governments of whose ideologies a majority of its members might disapprove. Whether or not it then, for consistency's sake, might be necessary also to take action against the Soviet dictatorship, the Organization could not possibly survive the strains ensuing from such administrative policy. The confusions between democracy and authoritarianism on the one hand, and political aggression and the "love of peace" on the other, would be hopeless.

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In answering the Polish, French and Mexican delegates today, Dr. Van Kleffens performed consistently with the clarity and brilliance which he evidenced in San Francisco. Although he and his government abhor Franco, he urged the Council to make its decision without sentiment on "hard, firm ground." If the UN were to break off economic or even diplomatic relations, this would immeasurably hurt the innocent Spanish **people**, would rally additional individuals of the wrong kind behind Franco, and would unleash another civil war on the country. Van Kleffens then declared that in the light of the Charter we cannot set a precedent by intervening in Spain's domestic jurisdiction. In support thereof he cited rulings by the Court of International Justice which denied the right to meddle in any country's domestic jurisdiction.

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Mr. Stettinius concentrated the United States' position on two objectives:

1. That the Franco government should be removed, but by the Spanish people, and

2. That the change be made by peaceful means, avoiding bloodshed from civil war and international conflict.

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The Chinese Position

Although the Chinese Government has severed all relations with the Franco regime, Dr. Quo, China's delegate, in an interview stated that such action is properly the result of **unilateral** policy, and hence carries no inference of the policy she would advocate as proper for the UN as an organization. "That is an entirely different matter," he said, "dependent on the rules and spirit of the Charter."

Dr. Quo-Tai-Chi, Retiring Council President, with A. Wilfred May of The "Chronicle."

Dr. Quo believes that one growing basic flaw in the Council's progress is the increasing tendency of members to make of it a "sounding-board and propaganda organization"; . and . . a medium for power politics.

Dr. Quo says with undoubted sincerity that the end of his tenure as Council President "could not come too soon." He very ably resolved the many and sometimes unruly Council Table wrangles over procedural details. Toward the end a partial list of rules was decided on; and his successor taking the chair today, Hafez Afifi Pasha of Egypt, will be helped by the coming adoption of a complete procedural code.

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More Political Implications in the Iran Controversy

A basic bone of contention is that of **sovereignty**, on which Mr. Gromyko is flagrantly inconsistent. Last month Mr. Gromyko contended that it was not within Iran's sovereign rights to bring the grievance before the Council because the matter was being settled by bilateral dealings. Now he declares that it would violate

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The Interest Rate Dilemma

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and credit expansion incites higher employment. It can be correctly concluded that in deflationary times lowering of interest rates is an adequate means of achieving reflation and prosperity. But the easy money policy as expressed today in innumerable utterances goes further. It applies a depression- and deflation-born theory to a clearly inflationary economy, when it states that even under inflationary conditions interest rates have to remain at a low level in order to maintain and guarantee prosperity. In reality low interest rates are only appropriate when demand for credits is low. As soon as and to the degree that the demand increases, the supply price of credits has to be raised in order to check inflationary credit expansion. This has not been done during the war in spite of its huge credit demand and it has not been done in the post-war period in spite of its obviously increasing demand for credits by business and, what amounts to the same, of withdrawals of savings by private individuals. The consequence has been that the profit margin entrepreneurs of all sorts have gained from low interest rates has enabled them to increase certain cost items, especially wages. This means, indeed, that the whole economy has adapted itself to the low interest rate level and that the adoption of an inflation-checking high interest rate policy would necessitate a very painful downward adjustment of costs and especially wages. With such an adjustment process, full employment could be achieved in spite of high interest rates. For it is an error to assume that only by lowering interest rates and not also by lowering other cost items can full employment be created.

There is, however, no doubt that under prevailing conditions such an adjustment process would certainly not be without political and social dangers. On the other hand the continuation of easy money policy in inflationary times must lead to an inflationary boom that is bound to be followed by a deflationary depression, i.e., to the contrary of the economic stabilization which must be the aim of every business cycle policy.

Undoubtedly it means a most serious dilemma if one is faced with the choice between continuation of inflationary monetary policy or the enforcement of a painful adjustment process. However, it should be considered that if the inflationary boom runs its course not hindered by restrictive monetary policy the ensuing crash will pose even more serious adjustment problems.

L. ALBERT HAHN.

New York City,
April 17, 1946.

Political Issues Engulf UN

(Continued from page 2131)

her sacred rights not to accede to a withdrawal of the case. In any event, this phase of international relations will have to be defined.

The placid Secretary General, Trygve Lie (the pronunciation of whose Christian name has been man handled with variations running from the "Trigger" of the journalists to the "Trygerf" uttered by Council President Quo), has finally "taken over" with a vengeance. His first attempt to guide a decision of the Council has taken the form of a legal bombshell again upsetting the oscillating Iran status, just as 8 of the 11 members were about to vote to keep the matter on the agenda. Mr. Lie's legal opinion was wholly unsolicited, and surprising and irritating to most of the delegates—irritating because they knew nothing of Mr. Lie's unprecedented action in telling them how to interpret the Charter, until an hour before their Council meeting convened. The maneuver does not in any way resolve the question, because, in the first place, as President Quo said, the Secretary-General functions merely as the chief administrative officer; and in the second place, the Committee of Experts to whom the opinion has been referred, is certain to report with differing interpretations.

Trygve Lie

Threw legal bombshell.

Mr. Lie having been elected to his office by Soviet backing against the strong candidacy of Canadian Ambassador Pearson, some observers are unkindly saying that his present action has political connotations.

In any event, the longer the Iran controversy continues, the more will vital political issues become involved. First there is the evident widening of the rift between the Big Three Powers. Mr. Gromyko calls the American proposals and the Council decisions "senseless" and "useless"; reiterates that the Americans and British, in seeking to "inflate and prolong" the issue, "are more Iranian than the Iranians," and specifically impugns the United States' motives. Even Sir Alexander Cadogan's temper is ruffled, and he testily reminds his "Soviet colleague" that it is not Washington or London, but Russia that persists in raising the issue at this time.

Then there is the practice of using the Council and nations as political tools. Dr. Lange, the Polish Delegate, accuses the Council of using Iran as a political football in power politics. But it appears much more evident that conversely Iran tried to make the Council a football for her own political help. For her complaints and reports to the Council have terminated in inconsistency and incomprehensibility. Four times the Iranians denied the Soviet's affirmations of a pending agreement—these Soviet affirmations being made in the background of the Soviet's undisputed treaty-breaking maintenance of her troops there after March 2. Yet the fifth time, the Iranian Government suddenly became convinced by the "categorical" assurances of the Russian Ambassador there. As late as April 9 Ambassador Ala insisted here that the matter be kept on the agenda despite Mr. Gromyko's contrary request. Only the day before the change-of-face note Prince Mozaffar Firouz, local propaganda minister and his country's spokesman, issued a statement saying that it is a question which the Security Council itself must decide. So, as late as Sunday noon the Iranian Government had no intention of withdrawing its complaint; and the reason for the quick following reversal is a mystery. Likewise is it a deep mystery why the Russians' latest communication convinced the Iranians that the troops would be out by May 6, whereas they were completely unconvinced by the Russians' similar assurances given on March 24, April 3 and April 4.

It will be remembered that the Iranians reported to the Council categorically that under their country's Constitution no oil agreement was permitted to be negotiated while foreign troops were present. Yet it is now obvious that negotiations leading up to the oil concession to the Russians, were at that very moment in full swing.

If small nations are able to use the Council, through the pressure of bringing tentative complaints, as a high-sounding body from which to get better terms for themselves in bilateral dealings, the Council's fundamental aims will be completely stultified.

The intrinsic authority and entire future of the Security Council are at stake. The Council cannot have its direction blown hither and yon by the wishes of any power—large or small—to accord with its political aims.

* * *

Mr. Gromyko has again raised the issue as to whether any Power can emasculate the functioning of the Council by indiscriminate exercise of the Veto—either affirmatively or passively through the walkout technique. Dr. Van Kleffens observed that the Charter specified the **opportunity** for any power to vote and that merely absenting one's-self from the proceedings could not give a nation the right to paralyze the Council. Mr. Gromyko merely in essence reiterated his country's Veto-theories so strenuously advanced at Dumbarton Oaks, Yalta and San Francisco: stating that because the Russians abstained from the proceedings, the decisions were "invalid," and that a veto over any Council decision, even involving procedure only, is permissible. Under the Russian concept, UN is merely an instrument to carry out the commands of the Big Five Powers, whereas the Western Democracies are trying to uphold majority rule.