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Britain and Loan Delay

By PAUL EINZIG

London observer calls attention to British public's changed attitude toward Anglo-American Loan Agreement arising from delay of Congressional approval and attacks on British by Senators. Holds Britain has been put in humiliating position and that plans are already taken to meet Congressional rejection. Says measures are at hand to protect British gold reserve and action is being delayed by British in restoring multilateralism.

Paul Einzig

LONDON, ENG.—The optimism that followed the passage of the Loan Agreement by the Senate Banking Committee has now given way to a renewed wave of pessimism, owing to the unexpectedly stiff opposition encountered in the Senate. The possibility of a rejection, or of further considerable delay, is now envisaged once more in official quarters. The sharp attack directed against Britain by some Senators (Continued on page 2529)

Index of Regular Features appears on page 2556.

Financial Problems—Domestic and Foreign

By ALLAN M. POPE*

President, The First Boston Corporation

Colonel Pope asserts while wartime controls were necessary peacetime controls are far more difficult to maintain and except in emergency cases should be abandoned. With regard to wartime control of yields of Government securities he doubts if these will be altered for a long period, and states that such variation as may occur should result from economic conditions and not from Treasury or Federal Reserve control. Holds 1% rediscount rate is likely to force Federal Reserve to be Treasury certificate market rather than open market. Says if foreign trade is to increase, our industries should study advisability of subsidiary corporations abroad.

Let us consider the problem of our debt structure.

A problem such as confronts us in handling a debt structure cannot, to my mind, be considered in any sense in its entirety at any given time. However, I do feel that there are certain fundamental points which are always necessary to have before us. We financed the war on a fixed interest basis, or nearly so. At the beginning of our major wartime financial operations those responsible for conducting the affairs of the Government, which related to the raising of sufficient funds to finance the war, determined upon a general yield curve for all classes of Government securities. It was presumably wise to have adopted such a curve. There were in the course (Continued on page 2518)

Allan M. Pope

*An address by Col. Pope before the Illinois Bankers Association, St. Louis, Mo., May 3, 1946.

The Control of Inflation

By WINTHROP W. ALDRICH*

Chairman, Chase National Bank of the City of New York

Asserting a dangerous degree of inflation exists, Mr. Aldrich traces economic, psychological and political consequences that might arise unless forces leading to inflation are checked. Holds price controls and intensified production are not remedies and urges instead (1) reducing unit costs and increasing industrial efficiency; (2) maintaining tax rates and creating budgetary surplus; (3) the refinancing of large floating debt into long term securities attractive to private investors; (4) allowing interest rates to rise, and (5) reducing bank holdings of the national debt. Says adoption of suggested measures will create greater confidence, here and abroad, in the dollar.

The inflation which already exists to a dangerous degree in the United States and to an extreme and tragic extent in many European nations and in the Orient is a very important phase of the economic dislocations resulting from the 2nd World War. Inflation not only reflects the dislocations which have taken place, but in itself gives rise to further economic and social distortions, which make more difficult the organization of peace and the (Continued on page 2528)

W. W. Aldrich

*An address by Mr. Aldrich at the Annual Convention Dinner of the Illinois Bankers Association, St. Louis, Mo., May 2, 1946.

Managing the Debt

By ELLIOTT V. BELL*

Superintendent of Banks, New York State

Bank Superintendent urges end of money supply inflation and excessively low interest rates. Warns of dangerous potential effect of reduced bank earnings and expanded deposits on stability of banking system. Opposes Leland and Seltzer plans for freezing bankholdings, and recommends: (1) Balancing budget; (2) restoration of Federal Reserve money market control; (3) Use of Treasury deposits to retire bank-held Government securities; (4) Creation of long-term 2½% issue for non-bank investors; (5) Bank restraint on further debt monetization; and (6) Adoption of definite fiscal policy.

Elliott V. Bell

Ours is an economy based largely upon debtor-creditor relations. Our money supply, which consists primarily of bank deposits, is based upon debt. It is itself a form of debt—debt that is owed by the banks to their depositors. It expands and contracts with the expansion and contraction of the debts that are owed to the banks by individuals, corporations and the Government. Probably the most important fact relating to our economy today is the existence of our $275 billions of Government debt. Upon the way that (Continued on page 2542)

*An address by Mr. Bell before New York State Bankers Association, Rochester, N. Y., May 4, 1946.

Security Council Desperately Seeking Compromise

By A. WILFRED MAY

At United States' suggestion, Soviet rebuff is accepted and further action regarding Soviet-Iranian situation is delayed until May 20. Problems involving Palestine and the Veto power constitute new hurdles.

HUNTER COLLEGE, NEW YORK, May 8—Reflecting a desperate desire to gain some surcease from the acute political crises besetting the world, the United States today led the way to a respite in the UN-Soviet-Iran controversy. For this purpose Mr. Stettinius read a prepared resolution, which to many observers appeared as the quintessence of appeasement, as well as typical of the State Department's tendency of alternately blowing hot and cold.

The American resolution in effect overlooked the flouting of the Council contained in the Soviet's non-reply to its request for information and in Mr. Gromyko's significantly empty chair at the Council table. As an excuse for requesting another reply from the Iranian Government—and that only by May 20—in lieu of taking some immediate Council action, Mr. Stettinius cited "communication difficulties" in that part of the world. But why 14 days grace is necessary to determine whether foreign troops are on one's own sovereign soil, is not clear. It was only a month ago that Mr. Byrnes insisted on closing the door against an extra 24 hours in awaiting an answer to a Council query to the Soviet and Iran. Nor is it comprehensible why the very fact that such information is not immediately procurable, should be disregarded as one of the relevant facts in the situation.

A. Wilfred May

If it had not been for Peter Hasluck, who has taken the place of Col. Hodgson as Australia's delegate, no discussion whatever would have taken place of the possible implications of the Soviet's attitude toward the Council.

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Fund and Bank Developments

By HERBERT M. BRATTER

First meeting of Fund's directors held in temporary quarters on May 6. Camille Gutt appointed General Manager. White statement calling attention to pioneering perplexities. Actual operation of Fund still subject to delays. Secretary Vinson expresses gratification with progress. Executive directors of Bank meet, though appointment of its President is delayed.

The first meeting of the executive directors of the World Fund was held in the Fund's temporary quarters in the Washington Hotel on May 6 at 11 a.m. After the meeting those who attended it were the luncheon guests of Harry D. White, American executive director.

Herbert M. Bratter

Camille Gutt

At the business meeting Mr. Camille Gutt of Belgium was chosen as general manager of the Fund, following his nomination by Mr. White. It was stated that Mr. Gutt would not take over his new job until his successor has been named. This it was said would be within a few days. Meanwhile, Mr. Gutt continues to act as Belgium's executive director of the Fund and the Bank. For these two posts Mr. Gutt's alternate is Mr. L. A. Goffin, Counsellor of the Belgian Embassy in Washington.

The alternate of Mr. Bruins of the Netherlands on the Fund is Mr. D. Crena de Iongh. Both attended the initial meeting of May 6.

Similarly, Britain's executive director of the Fund was accompanied to the opening meeting by his alternate, Mr. A. P. Grafftty-Smith, Assistant Chief Cashier of the Bank of England.

In the absence of Mr. Mendes-France, the seat of France was occupied by Mr. Jean de Largentaye, the temporary alternate.

Mr. Joshi, India's executive director of the Fund, was accompanied by his alternate, Mr. Sundaresan, who is his country's executive director of the Bank. In that institution Mr. Joshi acts as alternate.

Mr. Santos-Filho of Brazil, elected executive director of the Fund by the combined votes of a group of Latin American countries, informed the "Chronicle" that he had chosen as his alternate Mr. Octavio Bulhoes, a technical advisor to the Brazilian Ministry of Finance. Mr. Bulhoes attended the BW Conference in 1944, when he was listed as chief of the division of economic and financial studies of the Ministry.

Unlike the occasional open sessions at the Bretton Woods and Savannah meetings, the Fund executive directors do their business entirely in executive session. Following the initial meeting on May 6 a press conference was held by Harry D. White, the temporary chairman of the executive directors, with Mr. Gutt present to answer questions. Nearly all the questions, however, were answered by Mr. White, even some directed to Mr. Gutt. Once Mr. Gutt assumes the post of general manager, he will be the chairman

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How to Put Federal Finances On Sounder Basis

By WILLFORD I. KING
Professor of Economics, New York University

Dr. King points out Government's "easy money policy" is not a "sound money policy," and that measures should be taken to remedy the situation. Analyzes proposals for reducing burden of national debt and removing its inflationary pressure. Concludes only effective course of action is to pay off a large fraction of debt to banks as rapidly as feasible. Suggests retiring $40 billions of bank-held debt by a new bond issue, attractive to individuals and institutions.

Now that military expenses are dwindling, and a balanced budget appears to be in the offing, the Secretary of the Treasury and Federal Reserve Board officials are said to be considering seriously the question of what ought to be the Government's long-term program for handling its huge debt.


Willford I. King

The problem has two interlocking important phases, first, the prospective interest burden upon the Treasury; second, inflation and the price level.

At present, the average interest rate on outstanding Federal obligations is extremely low. For the last half of 1945, interest payments totaled less than $2 billions on an average debt of $263 billions, the interest rate averaging only 1½%[1] on an annual basis Since it has been none too easy to market savings bonds having nearly double that yield, it is clear that a 1½% rate has practically no connection with that necessary to get individuals to accumulate savings for use by either private enterprise or government. Instead, it reflects what is euphemistically referred to as the Government's "easy-money policy."

As students of finance are commonly aware, an "easy-money

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[1] U. S. *Survey of Current Business*, March 1946, p. 3-17.

Bank Investments, the Postwar Boom and the Stock Market

By JAMES F. HUGHES
Analyst of Auchincloss, Parker and Redpath

Mr. Hughes contends bearish implications of current liquidation of bank investments are grossly underestimated. Traces correlation of past major booms and depressions with course of credit expansion and contraction. Warns a further curtailment of debt monetization should alert us for "a possible major interruption of the generally accepted postwar boom."

While the great war and postwar bull stock market was fighting its way through the fourth quarter (February-April) of its fourth year something new was being substracted from it. With very little warning the Administration's financial leaders reversed their critical field and started subtracting Treasury securities from the banking system. In the short space of two months all previous records for liquidating bank investments were blasted into insignificance.


James F. Hughes

Any new financial record deserves some attention. For this reason, plus the off-chance that what has happened may at some future date prove to have been more significant than is now generally conceded, there is justification for devoting a little time to the consideration of recent trends in the investments of the banking system.

As relevant background for what has been going on in bank investments during the past few months it is of interest to go back to a statement made on Jan. 18 by Chairman Eccles of the Federal Reserve Board. In announcing the increase of margin requirements on stocks to 100% Mr. Eccles em-

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The Public Debt

By DANIEL W. BELL*
President, American Security and Trust Co., Washington

Former Treasury executive tells of planning of Government issues so as to diversify ownership and restrict amount available for bank purchase. Sees little leeway for further purchase by banks of eligible bonds that will add to debt "monetization," and little probability of huge Savings Bond redemptions. Says trend is away from debt monetization and that with a balanced budget borrowing from banks will be curtailed. Lauds policy of continuing Savings Bond drives and expresses confidence in ability of Treasury to manage the Public Debt in nation's interest.

It has now been four months since I left the Treasury to become a banker. My duties as a banker in many respects are similar to those I had in the Treasury. I still watch the Government bond market rather closely, for like other banks Government securities hold a prominent place in our portfolio. Furthermore, I continue to be as interested in the policies of public debt management as when it was one of my jobs to help determine and execute those policies.


Daniel W. Bell

While I have changed the label on my hat to that of "banker," I still seem to view the public debt problem about the same as before.

Because of my interest in the subject, I would like to make a few remarks today on public debt management. I have been amazed at the amount of material issued since January 1st on the subject of Treasury actions in managing the public debt, and particularly the avidity with which rumors are absorbed and passed around about every little phase of it, and the effect they have on the Government security market.

I have said on many occasions, and I want to repeat it now, that the planning of postwar public debt management began when war financing started. Every de-

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*An address by Mr. Bell before the Illinois Bankers Association, St. Louis, Mo., May 3, 1946.

Briefing the New NASD Registrants

NASD directs attention of "New Registrants" to 5% philosophy. Omits reference to important parts of SEC opinion. Burden of proof in trade practice cases is not on the defendant. There is no presumption that a spread in excess of 5% is ipso facto improper. Trade customs and usages are a safe yardstick in fixing the sizes of spreads and profits. Intelligent leadership needed to erase autocratic and restrictive attempts by administrative bodies to control spreads and profits.

In the most recent issue of the "NASD News," there is an article bearing the title "New Registrants."

It would be interesting to know who is its author.

The masthead indicates the issue is published "under supervision of the Public Relations Committee for the Board of Governors."

Our interest in authorship stems from our unwillingness to believe that all of the Governors have seen this article.

By "seen," of course, in this instance, we mean approved before publication.

After pointing out that there are now some 22,000 salesmen, traders and others who are "registered representatives," the article proceeds to brief these men and instruct

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The Budget and Fiscal Policy

By BEARDSLEY RUML*

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

Mr. Ruml points out confusion in interpretations of "a balanced budget," and states problems of budget balancing are not only financial but economic in scope. Holds a budget should comprise an over-all fiscal policy, which would include not only expenditure policy but tax, borrowing and general economic policy as well. Says budget balancing in an economic sense must take into account its effect on private economy, particularly in the matters of inflation and deflation and a high level of employment with a steady flow of purchasing power. Concludes that "there is need to consider the balanced budget as a part of national fiscal policy as it relates to maintaining a condition of prosperity."

I believe that it can be safely predicted that during the next few years we are going to have a considerable amount of discussion on the subject of balancing the federal budget. As I recall it, there was a good deal of discussion of this subject in the years preceding World War II, and I do not believe that the matter was settled to everyone's complete satisfaction. Accordingly, we shall probably begin debating the matter about where we left off, with two important differences, namely, that the national debt is about six times what it was then and the interest rate is somewhat lower.

Beardsley Ruml

From one point of view it is surprising that the balancing of the federal budget should be a debatable issue at all. This is one of the few objectives of national policy on which there is widespread popular agreement. People in all walks of life, in all parts of the country, in the cities and on the farms, without regard to political party, want the budget balanced. I suspect that an overwhelming majority want the budget kept in balance on a year-to-year basis, although a considerable number would be prepared to work the balancing out over more than one year.

To achieve this objective of a balanced federal budget, the people are prepared to make heavy sacrifice; in paying taxes and in omitting Federal expenditures for purposes that would be agreeable and beneficial.

This popular demand for a balanced budget springs from a sound instinct. People feel that a balanced budget is the sign of a healthy economy. They well know that for themselves personally it

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*An address by Mr. Ruml before the Delaware Bankers Association, Wilmington, Del., May 2, 1946.

Capitalism in Decade Ahead

By ERIC JOHNSTON*

Retiring President, Chamber of Commerce of the United States

Retiring head of nation's largest business organization, though making no apology for past capitalism, urges adoption of a new and more dynamic capitalism. Defines the new capitalism as a system designed for the enrichment of the many, and holds it must work to build a united and prosperous nation and at the same time retain our free institutions. Scores pressure groups and class privileges and makes capitalism keyword "responsibility to the public interest." Sees nothing wrong in minimum wage enactments, the annual wage system and profit sharing, and concludes that we must have a new, uncongealed capitalism, or none.

This is in the nature of a valedictory address. I have, as you know, just completed a four-year educational course in the presidency of the United States Chamber of Commerce. I am not at all sure that I have made passing grades in all subjects; or that I shall be awarded a diploma of graduation. I have wondered, in fact, what sort of "degree" I have earned by my studies, term after term. A Degree of Experience, I hope; perhaps even a Degree of Wisdom.

Eric A. Johnston

I do know, gratefully, that I have learned a lot. As spokesman for the largest organization of American businessmen, I enjoyed a highly privileged position for observing at close range important events and the men involved in them. That great advantage I owed to your confidence in me, and to your tolerance of me. I am here to acknowledge my indebtedness on both counts.

Tonight, in a farewell message, I want to talk about capitalism and its role in the decisive decade ahead.

When I came into the presidency of the Chamber of Commerce four years ago, the word "capitalist" was practically an epithet. If you said capitalist, you put "bloated" in front of the word. If you spoke of capitalism as a profit-making system, you always said "swollen" profits. To call a man a capitalist was to imply that he was at least an assistant ogre, grown fat and fubsy from feeding on the heart's blood of the poor and the downtrodden. The word "capitalist" was almost leprous.

But to call yourself a socialist was smart, and you could crash the best social circles. Capitalism sat below the salt and had to slink around the sidedoors of the best thinking. Capitalism provided the bread for the banquet, but it was considered crummy to be a capitalist.

Now and then, of course, someone would mention in a meek mutter that we did live under a capitalistic system, but it was usually some student of economics writing a thesis for his doctor's degree. And the thing to do was to have the thesis apologize for that unpleasant fact of life.

No Apology for Capitalism

I thought this was all wrong four years ago, and I said so. I still think it's wrong, and I'm still saying so. Four years ago, I remember saying that we business men had been intimidated by all the tirades against "bloated capitalists" and "swollen profits." We were so scared, I said then, that we took refuge in a muzzy little phrase called "free enterprise system," and sometimes we crawled into a corner of the American flag and talked about "the American way of life."

Anything but capitalism.

I said then, and I want to repeat it:

"You cannot take a whiff of 'free enterprise' or a stretch of a 'way of life' and start a factory with it. To start a factory and to start the jobs inside that factory you have to have savings. You

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*An address by Mr. Johnston at the annual dinner of the Chamber of Commerce of the United States, Atlantic City, N. J., May 2, 1946.

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Near-Term Risks

By EDSON GOULD*

Asserting it may be unwise to subscribe wholeheartedly to widespread optimism and bullishness so far at least as near term is concerned, Mr. Gould urges emphasis on quality in securities rather than maximum appreciation by assumption of large risks. Holds existing large-scale inflation in long run will make for materially higher stock prices but market may be expected to swing widely, with danger that "a severe jolt will break an axle."

The market has had a substantial rise and financial confidence has been largely restored over the past two months, but it may well prove the part of wisdom not to subscribe too wholeheartedly to widespread optimism and bullishness, at least so far as the near term is concerned. In fact the present is a pretty good time to lay emphasis upon quality, to have available some purchasing power and to refrain from attempting maximum type appreciation via the assumption of large risks.

Edson Gould

The news has been excellent. OPA has been beating a consistent retreat and is currently being subjected to the heaviest attacks in its career. The House amendments to the bill extending OPA for nine months were decidedly encouraging, but it is highly probable that the bill will be further amended in the Senate.

Dividend news has been good; there have been more increases than cuts and omissions; but several important dividend dates are coming up over the next several weeks and at least some of these may not be stimulating to confidence.

Foreign news, too, has been on the encouraging side. Uneasiness over Russian relations has quite disappeared, but here, too, further flareups are to be expected.

The coal strike continues, with the hope that any day or week may bring settlement. Nevertheless, the motor and steel strikes show how long-drawn-out these controversies can become, primarily because of the emphasis upon politics rather than economics.

We are in a period of large-scale inflation which appears to have materially further to go. So far as the long-term outlook for stock prices is concerned, materially higher prices are fully likely to be witnessed. Inflation is, however, a long-drawn-out and irregular process. This particular period is 14 years old and will almost surely extend over a further period of years.

Unless the inflation is suddenly to become virulent, it is unlikely that we will see a further long-continued, uninterrupted rise in the market. It appears more reasonable to expect a market that will continue to swing widely as has been the case over recent months. The February decline and the subsequent advance show how volatile and dynamic modern, re-

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*Mr. Gould is a member of the research staff of Smith, Barney & Co., but the views and opinions expressed are not necessarily those of the firm.

Restoring Fiscal Sanity in America

By HON. HARRY FLOOD BYRD*
U. S. Senator from Virginia

Describing the magnitude of the Federal Government as affecting lives of all, as well as controlling the nation's business economy, Senator Byrd warns against continuing "liberal" spending of people's money. Asserts Government cannot support people and also preserve democracy, and submits plan to restore fiscal sanity, comprising (1) early balancing of budget; (2) keeping it in balance; (3) gradual reduction of national debt; and (4) reduction of taxes by curtailing unnecessary Federal expenditures. Points out need of maintaining production to support both debt and Government, and calls for Congressional action to prevent labor leaders from demanding "royalties" from people and to compel unions to adhere to contracts.

Those present in this audience know from personal experience what I mean when I say there is scarcely a move made by the Federal Government at Washington, the force of which is not felt in some degree by you who control the business economy of the nation. It is not unusual, in fact, for a routine action by some Government agency to be reflected in the lives of the people around the globe. The reason for this is that never in our history has the Government controlled the daily lives of our citizens as it does now. The sheer magnitude of the Federal Government and the multitude of things with which it concerns itself make the actions of governmental bureaus a controlling influence in every man's private business.

Harry F. Byrd

First I want to speak of the magnitude—the utter bigness—of this Government we have created. In fact, we are challenged to safeguard ourselves against the creature we have made to serve us. Is the tail, in truth, wagging the dog?

Government Operations, 1935 and 1946

To emphasize how far we have gone toward a paternalistic government, let us compare the governmental operations for the year 1935 to the present time. I take

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*Address by Senator Byrd before the United States Chamber of Commerce, Atlantic City, N. J., May 3, 1946.

Lowell Grady to Be Harris Upham Partner

LOS ANGELES, CALIF.—Lowell L. Grady, resident manager of the Los Angeles office of Harris, Upham & Co., 523 West Sixth Street, will be admitted to partnership in the New York Stock Exchange firm, as of May 16.

Taxes—What Should Be Done?

By JOHN L. CONNOLLY*
Secretary and General Counsel
Minnesota Mining and Manufacturing Co.

Mr. Connolly presents proposals of study group of the U. S. Chamber of Commerce as: (1) prompt reduction of Government expenditures to $30 billions in 1947 and $25 billions in 1948; (2) improvement in Congressional and Executive procedure so that Government expenditures can be adjusted to revenues by one committee; (3) alleviation of tax discrimination against corporations; (4) more liberal treatment of depreciation by the taxpayer; (5) eliminate from individual income taxation the motive of income redistribution, and limit it to defraying costs of Government; (6) surrender of estate and gift taxes to states. Holds best way to provide tax incentives is to reduce tax rates.

My subject today is "Federal Taxes—What Should Be Done?" This is a large subject and in the limited time allotted I will be able to state only certain of the major objectives advocated by the United States Chamber of Commerce.

John L. Connolly

It was decided by the Chamber that, rather than publish a postwar tax plan, it would be better to urge progressive steps of adjustment in accordance with the practical situation as it develops. The following are some of the things that should be done about Federal taxes in the opinion of those who have been studying this subject for the Chamber:

(1) Prompt reduction of expenditures and the establishment by Congress of a definite objective to end deficit financing.

Budget for 1947—Expenditures scheduled should be less than $30 billions, and the budget balanced. With new estimates of receipts and expenditures and some further reductions in the latter, a balance is attainable.

Budget for 1948—Expenditures scheduled should be less than $25 billions (little more than $20 billions) and there should be a provision for debt retirement.

Now, you may ask—"Are these things possible?" Most people who have made a study of the subject believe these things are possible, but they differ as to the method. In other words—Shall the present confiscatory high war tax rates be retained in order to balance the budget, or—Shall we reduce the rates and balance the budget by reducing our expenditures? The House Committee on Postwar Economic Policy and Planning and other influences in the Congress, as well as many outside it, have urged that the budget for 1947 be balanced. The Senate Finance Committee unanimously approved Senate Bill 1760 which would reduce the debt limit to $275 billion. Of late, statements that we are rapidly approaching a balanced budget have come from high official sources.

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*An address by Mr. Connolly at the 34th Annual Meeting of The Chamber of Commerce of the U. S. in Atlantic City, N. J., May 1, 1946.

Handling Debt and Inflation Problems

By AUBREY G. LANSTON*
Vice President, First Boston Corporation

Referring to need of appraising Federal Government's fiscal and debt management policies, Mr. Lanston points out dangers of present distribution of National Debt and the low interest rate policy. Holds increase in money supply from "debt monetization," without adequate offset of goods and services, may cost many times the presumed savings in interest. Contends removal of preferential discount rate alone has little effect, and that holding down the Treasury certificate interest rate may lead banks to acquire long-term bonds and thus bring about an inevitable clash with our flexible commercial banking system. Concludes unless short-term rates range between $1\frac{1}{4}\%$ and $1\frac{3}{4}\%$, long-term interest yields on bonds may again head toward 2% level.

The background for investments is provided by the condition of the economic life of the nation. Our economic life depends upon the attitudes, actions and circumstances which combine to produce what we might call the national climate. Important to the national climate are the fiscal policies which guide the taxation and expenditures of the Federal Government, and the policies and methods with which our public debt is managed. Without a sufficiently healthful national climate we cannot gain satisfactory production, employment or prosperity, nor can we adequately curb the inflationary forces which, in some degree, are the inevitable result of fighting a major war.

A. G. Lanston

This morning I want to get underneath some of the generalities, and what I believe to be some of the misconceptions, that characterize many of the suggestions for handling debt and inflation problems. We have to be realistic and not deal in platitudes unless we wish to further muddy a very confusing situation. As I thought about this talk over the weekend I was reminded of two men in a canoe who after a certain period of drifting about in the stream decided to put their paddles in the water. Then, somewhat alarmed at the predicament in which they found themselves as a consequence of their effortless drifting, they raised their voices boisterously and paddled furiously without regard to whether or not one of them was steering the canoe. More recently they seem to have been paddling at times in opposite directions. It seems to me that it is about time that we head the canoe in the right direction, get one paddle on the right side of the ca-

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*Address by Mr. Lanston before the Trust Division of the Connecticut Bankers Association, New Haven, Conn., May 7, 1946.

Railroad Traffic Topics

By E. G. PLOWMAN*

Traffic Vice-President, U. S. Steel Corporation

Industrial traffic expert, in discussing problems relating to future operations and needs for transportation, calls attention to commercial importance of railroads, for which there is no substitute. Says most serious problems relate to availability and economic use of freight cars, and that both shippers and railroads must not fail to explore every arrangement which can improve the efficiency and reduce the costs of transportation service. Calls for greater use of freight cars by heavier and faster loading and unloading and a reduction in the weight of cars in relation to their carrying capacity.

As time marches on, the relative importance of traffic problems changes: but the fundamental problems remain. At present there is one major problem which, to be understood, must be discussed in two ways; first, in its basic aspects, and then in terms of its immediate importance.

E. G. Plowman

At the peak of World War II, in 1944, American railroads were supplying 70% of the ton-miles required for domestic transportation, excluding coastwise and intercoastal water transportation services. This should be compared with 1939, when our railroads were performing only 63% of the ton-miles in these domestic services. In 1939 the railroads transported 333 billion revenue ton-miles. By 1944 this figure became 737 billion revenue ton-miles, an increase of 121%. Thus, both relatively and absolutely, the railroads became much more important in this period. The questions that naturally arise concern the future: How important will our railroads be? What steps can or should be taken by them to meet the future needs for rail transportation?

No Commercial Substitute for Railroads

For both military and commercial purposes, there are no substitutes for the modern railroad, although we need all other forms of transport to round out our transportation system in which each type of carrier has its place. The railroad is a multipurpose mass transportation facility; its peculiar combination of characteristics is not to be found in other types of transportation. These characteristics include the physical interconnection of hundreds of thousands of points of origin and destination within the United States by means of exclusive rights-of-way; the availability of any part of this network for any desired degree of use; and the ability to supply suitable units or freight cars for transportation between all points on this railway network. Railroads, like many other transportation agencies, have highly-skilled employees and management organization competent to supply the desired service. There seems to be no doubt as to the great need and demand for railroad transportation in the immediate future—say during the next five years. Beyond that bright nearby period much of the future success of the railroads will depend upon their ability progressively to meet requirements. Their status in the future depends in part, at least, on their present success in making it unnecessary to turn to other forms of transportation for needed services which the railroads can perform with relatively greater efficiency. Each type of carrier should of course be used in the types of services for which it is relatively most efficient.

All of us here today, members of the New York Traffic Club, can take the physical interconnecting network of standard gauge tracks for granted. Our lifetimes will have run their span, in my belief, before any important reduction takes place in the effectiveness of this network through abandonment or merger.

Similarly we can accept as permanent and not subject to rapid or drastic change the present fine organization of American railroads. It would take, in my opinion, many years of poor earnings and curtailed operations before serious loss in rail transportation efficiency would take place.

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*An address by Mr. Plowman before the New York Traffic Club, New York City, April 25, 1946.

Anglo-American Loan Terms Crippling to Britain

By RT. HON. L. S. AMERY*

Director, British Goodyear Tire Company

Former Secretary of State for British Colonies and Dominions

British statesman, though approving an American loan to Britain, contends terms will cripple British domestic and foreign economy and will produce conditions that prevent its repayment. Holds Britain's retention of Empire preferential tariff system, the Sterling Area, and other existing economic and political preferences is essential to her prosperity and asserts "the American Treasury seems determined to wreck sterling." Scorns curbs put on domestic control of British currency and predicts "an invisible tariff will be set up in all sterling countries against American exports" and "Bretton Woods will be in difficulties from the start."

Let me, at the outset, assure you that no one believes more profoundly than I do in the necessity of Anglo-American cooperation, in trade at least as well as in other fields of policy. The world's best hope, as well as the peace and prosperity of both of us, lies in our understanding each other and working together. That can only be on the basis of consideration for each other's interests and outlook, and also of complete frankness in stating each our own point of view and defending our own rights. I am sure, therefore, that you will not misunderstand me if I say exactly what I think, without beating round the bush.

L. S. Amery

Loan and Conditions

Let me make it quite clear, to begin with, that I am not criticising the loan itself. That seems to me a perfectly fair and reasonable business deal, equally in the interest of both parties. We are faced with a difficult time before we can readjust our economy after the tremendous distortion to which—as Mr. Hawkins generously acknowledged—we submitted it for the sake of the common cause. During that time it will be a valuable help to us to be able to secure, without immediate payment in the shape of exports, large quantities of American goods of all kinds. America, on the other hand, is ready to sell those goods. But she cannot sell them unless others have secured the requisite dollars. In the long run those dollars can only be acquired by selling goods to the United States, but as a temporary measure they can be secured if the United States is willing to lend them. At this

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*An address by Mr. Amery before the American Chamber of Commerce in London, England, March 19, 1946.

Mohawk Liqueur Profit Up

Indicated net income of Mohawk Liqueur Corporation equal to sixty-six cents per common share, for the quarter ended March 31 exceeded earnings of the company for the entire 1945 fiscal year. Net income of the company for the fiscal year ended September 30, 1945, was $123,463, or sixty cents per common share. The company reported net income of $198,114, equal to ninety-eight cents per common share, for the six months ended March 31, 1946.

The March 31, 1946 balance sheet showed net working capital of $618,075, an increase of $184,916 compared with the $433,159 of net working capital as of September 30, 1945.

Cash on March 31, 1946 totaled $120,311, which compared with $111,606 six months earlier. Receivables on March 31, 1946 had increased to $392,249 from $72,839 last September 30, and inventories had increased to $945,826 on March 31 from $906,015 six months earlier.

Mohawk is fortunate in that the base of its various liqueurs is fruit brandy, the company using no grains in their manufacturing process. Mohawk has ample reserves and sources of supply of fruit brandy to take care of contemplated accelerated production.

Stevens With Cohu Torrey

FT. MYERS, FLA. — Ernest Street Stevens has become associated with Cohu & Torrey. In the past Mr. Stevens did business as an individual dealer in Ft. Myers and was with David L. Shillinglaw & Co. of Chicago.

Price Control and Inflation

By HON. FRED M. VINSON*
Secretary of the Treasury

Asserting danger of inflation is far greater today than during war, Secretary Vinson urges continuation of price controls until reconversion is completed and durable goods have been produced to extent of permitting adequate supply of consumers goods. Recalls inflation following removal of price controls after World War I, and points out that one factor against inflation is that "we are moving toward a balanced budget." Cites as another factor, continuing sale of savings bonds to offset spending. Concludes "what we do with price control during the next year will determine whether backlog of demand will bring prosperity or inflation."

We are living in a critical period of American history. We have fought successfully the greatest of all wars. We shall soon have completed the reconversion of our economy to peace. There are many problems that must still be met before we have safely passed through the dangerous aftermath of war.

Secretary Vinson

The American people have done a good job. The great strength of character they showed is a reflection of the enduring value of our democratic system of free government and of our business system of free enterprise.

We in the Administration and you in Congress have worked together on these problems of the American people. Your committee has dealt with some of the most important legislation of the war and postwar period. I am very glad to appear before you to discuss the number one domestic problem with which we must deal right now—the problem of price control and inflation.

This can be a great era of American achievement. The years that lie ahead hold for our people the promise of the greatest peacetime production and the highest living standards the world has ever known. But the coming year is also filled with danger. The prospect for material abundance could be changed to one of want and despair if we do not

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*Statement by Secretary Vinson before the Senate Committee on Banking and Currency, May 7, 1946.

Price Control—New Administrative Procedures

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

OPA executive, after asserting "we've got to keep the lid on prices until the inflationary fires are brought under reasonable control," and after predicting that decontrol will raise prices from 30 to 50%, denies that controls are impeding production and that OPA is seeking to perpetuate itself. Maintains OPA's pricing standards have permitted a large number of both industry-wide and individual adjustments, and that despite huge management task involved there are not undue delays in making adjustments. Explains OPA streamlining and gives examples of price ceiling removals. Says value of decontrol items exceed $2 billions, but insists control be maintained on essentials because of inflationary risks.

I'd like to assure you, Mr. Chairman, that I am glad to be here despite the fact that the Chamber of Commerce has opened a grave for the OPA and inscribed "October 1946" on the headstone as the date of its decease.

Paul Porter

We had expected the attack from the NAM. But when the Chamber of Commerce joined the fray, I felt moved to murmur reproachfully, "Thou too, Brutus." Coming as it did from a long-time friend of price control, this was "the most unkindest cut of all." Or perhaps I should borrow as my text Marc Antony's closing line, "Mischief, thou art afoot, take thou what course thou wilt."

Turning from Shakespeare, however, to the more prosaic subject assigned to me today, "Price Control — New Administrative Procedures," let me say first of all that our policies have been and still are geared to the determination to get this emergency job done and get out as fast as possible. That statement has been

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*An address by Mr. Porter before the annual meeting of the United States Chamber of Commerce, Atlantic City, May 2, 1946.

Fiscal and Housing Policies Affecting Banking

By FRANK C. RATHJE*
President, American Bankers Association

ABA head reviews veteran, public debt, monetary, and housing policies as they affect banking, and lays down a program of (1) continuous sale of U. S. Savings bonds; (2) using war loan balances in the banks to repay Government debt; (3) issuing Treasury refunding bonds of long maturity; and (4) reducing speculation in Government securities. Sees danger in passage of Wagner-Ellender-Taft Housing Bill, which, he states, would create a mortgage debt of $80 billions on high-cost construction, with excessive borrowing margin. Urges a careful survey of housing needs, availability of building material and costs.

One of the most important responsibilities bankers have at the present time is toward the veteran. The purpose of the loan provisions of the Servicemen's Readjustment Act, which was passed in June of 1944, was to assist the returning veterans in reestablishing themselves in their homes and business activities. It was found that the original law and regulations issued under it were impractical. Lending agencies were not able to function effectively to meet the credit needs of the veteran.


Frank C. Rathje

In December, 1945, amendments to the original law were passed. Subsequently, amended regulations were issued. We have great hope that the new law and regulations will be practical and will enable the banks to provide veterans with credit facilities on a sound basis.

We must realize that veterans as a group are not a problem, but that the individual veteran has his problems. It is necessary that we guide the veteran in the intelligent use of credit, and protect him against the burden of ill-advised debt.

It is your fortunate duty as the bankers of the nation to serve this veteran with counsel, advice and sound credit to the end that he will fit himself once again into our economy and adhere to our American way of life, rather than to cause him to constitute himself a group that may have as its purpose a change in the fundamental traditions of this nation.

Impact of Fiscal Policy on Banking

Government debt and Federal budget policy have a great impact upon banking operations and have been the subject of much discussion in the recent past. The debt is large and involves delicate questions of management. Recently, the Falk Foundation of Pittsburgh announced the formation of a committee under Dr. W. Randolph Burgess, to make an intensive study of the problem. In addition the Committee for Economic Development has begun a study of government revenue and expenditure policies and the implications of the Federal debt. From time to time, there have appeared published statements by individuals presenting results of their thought and study of this problem. These studies and discussions will yield results that will prove valuable in increasing the general understanding of this difficult problem of debt management.

At its recent meeting in French Lick, Ind., the Executive Council of the American Bankers Association formulated a program of the principal monetary policies which appear most important to combat present inflationary tendencies. They were expressed in four points.

First, the continued vigorous sale of United States Savings Bonds by the Treasury through

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*Address by Mr. Rathje before the Illinois Bankers Association, St. Louis, Mo., May 2, 1946.

Proposals for Postwar Stable Economy

By MARCUS NADLER*
Professor of Finance, New York University

Dr. Nadler, holding that the course of business will depend on measures that are taken in the immediate future, recommends: (1) further reductions in Government expenditures; (2) rapid disposal of all surplus war material; (3) intensification of drives to sell Government securities to ultimate investors; (4) sound Treasury refunding operations; and (5) continued "holding the line" as established by the present wage-price policy. Concludes these measures will not be burdensome, and, if put into effect, the business outlook for several years ahead is excellent.

Business activity in the United States can assume one of two courses, either (1) an inflationary explosion accompanied by a sharp rise in prices, wages and production, followed by a severe decline and considerable unemployment, or (2) business activity, particularly after the coal strike and other labor difficulties have been ironed out, will increase slowly accompanied by shortages and black markets but which will soon be overcome, followed by a prolonged period of good business.


Dr. Marcus Nadler

The course of business will depend on the measures to be taken in the immediate future. To judge from the measures taken so far there are reasons to believe that an inflationary explosion will be avoided and that while the supply of commodities will be exceeded by the demand no real harm will have been done to the economy. The deficit of the Government has already been drastically reduced and one can reasonably expect that during the coming fiscal year the deficit will have been entirely eliminated.

The Treasury has already taken measures to redeem some maturing obligations, thus preventing at least part of the swollen war loan account from becoming purchasing power in the hands of the people. The preferential discount

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*Summary of an address by Dr. Nadler before the American Spice Trade Association, New York City, May 6, 1946.

George Kranz With Kaiser & Co. Dept.

SAN FRANCISCO, CALIF. — Kaiser & Co., Russ Building, members of the New York and San Francisco Stock Exchanges and other leading exchanges, announce that George Kranz is now associated with them in their trading department.

Mr. Kranz who has recently been on war duty, was formerly with Cohu & Torrey in New York and was manager of the trading department for Amott, Baker & Co., Inc. in New York.

Illinois Brevities

Chicago industrial and commercial activity grinded almost to a standstill as an emergency brake was applied by the Illinois Commerce Commission to conserve rapidly dwindling coal supplies. In a sweeping edit issued by the Commission last Thursday, industrial users of electricity in northern Illinois were limited to an aggregate 24 hour service a week in a drastic move to stretch existing coal supplies through the end of the month in the event the strike of the nation's bituminous coal miners is prolonged.

Commonwealth Edison Company, which services Chicago, and its three connected operating utilities — Public Service Co. of Northern Illinois, Western United Gas & Electric Co. and the Illinois Northern Utilities Co.—were told to enforce compliance and to make "such investigations as may be necessary to determine nonessential users that can be required to discontinue their electric service without undue hardship to the community or jeopardizing public health, safety and the protection of property and report the same to the Commission for Commission action as soon as any such users have been ascertained."

Barely recovered from the crippling steel strike, Chicago manufacturers again were forced to clamp down on production, some operating only one day a week, others working eight-hour shifts three days a week, and still others breaking up the 24-hour service alloted into still shorter shifts to maintain a semblance of production throughout the week.

Hardest hit were the smaller manufacturers. A spokesman for Republic Drill & Tool Co., which employs 700 persons, said production would be cut 65%. The big packing houses were not affected since they maintain their own power units as do the steel producing firms in the Chicago area. Aim of Commonwealth Edison was to cut the normal kilowatt load by 40% to stretch existing coal supplies an additional three to four weeks.

Retail stores, wholesale establishments, motion picture and other theatres and amusement places as well as manufacturing plants were placed under the ban. Of Chicago's leading department stores, only the Boston Store maintained its regular store hours since it generates its own electricity by means of fuel oil. The Fair, Marshall Field & Co., Mandel Brothers, and other State Street establishments remained open from 2:00 to 6:00 p.m. daily only.

Local transportation and suburban service were likewise curtailed and Chicago at night presented a picture unlike anything seen during the war with the dim-out more severe than at anytime during hostilities.

The Chicago Association of Commerce estimated that the city would suffer a maximum production loss of $[illegible]000,000 a week as a result of the restrictions.

* * *

United States Steel Corporation was reported last week as having entered a bid for the now surplus Chicago Dodge plant. Rumors that General Motors, Ford and the Kaiser Co. were also "definitely interested remained unconfirmed as bids failed to materialize.

The Kaiser Co. is also out of the bidding on the $90,000,000 Government-owned South Chicago steel plant. In a letter to the War Assets Administration, Kaiser advised it was unable to bid because the plant lacks facilities for making sheet steel, which the automobile company stated is its chief need. Republic Steel Co., which operated the South Chicago plant during the war, offered to lease, with an option to purchase, and the Central Steel Tube Co., bid $17,500,000 for the plant, asking three years in which to pay.

* * *

While external business conditions may affect future earnings, stockholders of merchandising shares had reason for optimism with Marshall Field & Co. reporting a gain of 140% in first quarter earnings over the same period a year ago and Montgomery Ward & Co. quarter net income treble that of the first three months of 1945.

Elimination of the excess profits tax was cited by both companies as an important factor in bringing about the sharp increase in net for the first quarter of 1946. Field reported net income of $3,210,000 equal to $1.57 a common share, compared with $1,336,000 or 61 cents a share for the corresponding period a year ago, and net income of Montgomery Ward was estimated by Sewell L. Avery, Chairman of the board, at $14,000,000, or slightly more than $2.60 a share, against $4,768,000 or 85 cents a share in the first quarter of 1945.

Mr. Avery, following the annual stockholders' meeting last week, indicated to reporters that rights may shortly be offered to shareholders to raise funds to finance an expanded volume of business.

* * *

The City Ice & Fuel Co., was reliably reported to be negotiating for the acquisition of Bunge Brothers Coal Co. While details of the transaction were lacking, the price involved was said to be between $400,000 and $500,000 Purchase of Bunge would place City Ice & Fuel in the retail coal business.

* * *

Chicago Corporation intends to list its common on the New York Stock Exchange, Richard Wagner, President, disclosed at the annual meeting of stockholders. At the same time, he indicated the remaining outstanding preferred would be retired by the company some time this year and the possibility of another common dividend in 1946. Both matters are being considered by the board of directors, he said.

Kramer Elected Head Of Chicago Clearing

CHICAGO, ILL. — Ralph W. Davis, Chairman of the Board of Governors of The Chicago Stock Exchange, announced that Harold I. Kramer had been elected President of the Chicago Stock Clearing Corporation, the Exchange's wholly-owned subsidiary.

Mr. Kramer received his education at Fenger High School and the Central Y. M. C. A. College. He was born in Ann Arbor, Michigan August 13, 1907. Seventeen years ago, he was employed by the Exchange as a recorder on the trading floor, where he worked until he was transferred to the quotation department. Mr. Kramer became an employee of the Chicago Stock Clearing Corporation when it was established on January 2, 1930. He was made its vice-president in 1942, which office he has held to date. Mr. Kramer is a resident of Wheaton, Illinois where he lives with his wife and ten-year old daughter.

Mr. Davis also anounced the election of Miss Evelynne Tortorel as Assistant to the President, Raymond M. Day. Vice-President and George J. Bergman Secretary of the Chicago Stock Clearing Corporation.

Larsen With Paine Webber

MUSKEGON, MICH. — Walter Larsen has become associated with Paine, Webber, Jackson & Curtis. In the past he was head of Central Securities Co. of Muskegon.

Officials of Fund and World Bank

J. V. JOSHI
India's Executive Director of the Fund

Third of a series of biographical captions of persons connected with the International Monetary Fund and the Bank for Reconstruction and Development.

As a former Cambridge student of John Maynard Keynes, the economic advisor to the Reserve Bank of India, Mr. Jagannath Vishwanath Joshi was quite at ease at the recent Savannah inaugural meeting of the World Fund and the World Bank. Mr. Joshi has been appointed executive director of the Fund by his Government, which is at present one of the Big Five countries and as such automatically entitled to an executive director.

Jagannath V. Joshi

At Cambridge, Joshi joined King's College in 1920. Three years later he obtained a "first in economics tripos" and as a result was awarded the Wrenbury studentship, working under Mr. Keynes as tutor. In 1924 he joined the Government of Bombay as Assistant Secretary of the Finance Department. The following year Joshi was appointed Assistant Secretary to the Indian Taxation Inquiry Committee. He became in 1927 special officer to prepare the Bombay Government's financial case for the Royal Commission on Constitutional Reforms. Subsequently Joshi served as Deputy Director of Commercial Intelligence and Statistics, Deputy Director of Economic Research, Director General of Commercial Intelligence and Statistics, and Deputy Economic Advisor of the Government of India, until in 1944 he joined the Reserve Bank of India.

Buckbee Now Proprietor

Frank R. Buckbee is now sole proprietor of Buckbee & Co., 42 Broadway, New York City. Edward J. McDermott, Jr., was formerly a partner in the firm.

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.

SECURITY TRADERS ASSOCIATION OF NEW YORK

Challenged by the Wall Street Athletic Association which is comprised of twelve teams, the Security Traders Association of New York has picked up the gauntlet and is now forming a soft-ball team. The season opens May 13 at Croke Field, 238th Street and Broadway. Members interested in playing should get in touch with Joseph C. Eagan of Frank C. Masterson & Co. who will supply full details. Members will play either on Monday nights or Thursday nights after business.

Graf and Briggs Are Elected by Byllesby

CHICAGO, ILL. — Announcement has been made of the election of Robert J. Graf as Chairman of the Board and of Joseph H. Briggs as President of H. M. Byllesby and Company, underwriters and dealers in investment securities with offices at 135 South La Salle Street. Mr. Briggs, formerly executive vice president and chairman of the executive committee, has been with the company since 1909. Mr. Graf, one of the original partners in the Byllesby organization when it was founded in 1902, had been president since 1936.

Municipal Bond Club Of Cgo. Elects Simond

CHICAGO, ILL.—The Municipal Bond Club of Chicago has elected Robert E. Simond, Halsey, Stuart & Co., Inc., President for the ensuing year. Don G. Miehls, William Blair & Co., was chosen secretary, and Carl H. Ollman, Kebbon, McCormick & Co., Treasurer.

Other directors elected were: Richard M. Delafield, The First Boston Corp.; Elmer G. Hassman, A. G. Becker & Co., Inc.; James A. Quigg, Paine, Webber, Jackson & Curtis; and John S. Weatherston, Graham, Parsons & Co.

Dealer-Broker Investment Recommendations and Literature

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

Aviation Bulletin, including a field survey of the Airframe Companies—John H. Lewis & Co., 14 Wall Street, New York 5, N. Y.

"Come West for Opportunities"—Dealers can earn 25% of the commission on orders executed on the Los Angeles Stock Exchange—details from Barbour, Smith & Co., 210 West Seventh Street, Los Angeles 14, Calif.

Floor Covering Industry—Study of attractive outlook—In the "Fortnightly Market and Business Survey"—E. F. Hutton & Company, 61 Broadway, New York 6, N. Y.

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

Ideas for Dealers—In the May issue analyses of the **Emporium Capwell Co.; Seabord Finance Co.; Textron, Inc.;** and **Steamship Stocks**—Kaiser & Co., Russ Building, San Francisco 4, Calif.

Also available is a detailed analysis of **Anglo-California National Bank of San Francisco.**

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.

Paper Industry—Summary and outlook—Hirsch & Co., 25 Broad Street, New York 4, N. Y.

Railroad Income Bonds—Recent developments affecting these securities, and a memorandum on **Florida Power & Light** in the Fortnightly Investment Letter—H. Hentz & Co., 60 Beaver Street, New York 4, N. Y.

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

Bird & Son, Inc.—Memorandum

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F. D. Gearhart Elected Director of Higgins

The election of Frederick D. Gearhart, Jr., as a Director of Higgins, Inc., New Orleans, was announced today by Andrew Jackson Higgins, President. Mr. Gearhart, who is President of the N. Y. investment banking firm of Kobbe, Gearhart & Co., also is a Director of Globe Aircraft Corp. of Fort Worth, Tex.; Wilcox Gay Corp. of Charlotte, Mich.; Otto Airlines of Newark, N. J.; Consolidated Industries of Lafayette, Ind.; Virginia Dare Stores and other companies.

F. D. Gearhart, Jr.

Witter to Admit Moore

SAN FRANCISCO, CALIF. — Dean Witter & Co., 45 Montgomery Street, members of the New York and San Francisco Stock Exchanges and other national exchanges, will admit Charles E. Moore to limited partnership in the firm on May 16.

Real Estate Securities

If that large Hotel Chain goes through with its plan to float a new public issue, it may be the forerunner of the return of public financing of real estate. New real estate issues have been nil since John Q. Public discovered that after 40 years an investor could take a loss on real estate bonds.

The referee in the Chanin Building reorganization has filed his report with the Court. Hearings will shortly be held before the Court. Conclusion of the reorganization will probably be delayed as we understand that the plan presented is not approved by the committee representing the largest amount of 1st mortgage bonds.

The Pierrepont Hotel recently had to call a number of its bonds at 104. Sinking funds of real estate securities are finding it very difficult to secure tenders, so don't be surprised if other trustees call bonds from time to time.

The recent drop in the market of 165 Broadway bonds has been attributed to the premise that the recent fatal accident on one of their elevators may necessitate the changing over from hydraulic to electric elevators. The cost of such a change would be considerable. Such an expense, however, could be amortized by higher rents inasmuch as the rent laws on commercial buildings are subject to a fair return to the lessor.

It will be interesting to see which of the downtown buildings which are predominately occupied by the Government is the first to get a release on its space. Included in this catagory are 39 Broadway (Broadway-Trinity Place 4½s 1963), 42 Broadway (Broadway-New 3-4s 1961) and 50 Broadway. Whichever is first will certainly benefit, as all three buildings have enough space now occupied by the Government to probably fill the current civilian demand for space in the neighborhood. It will be just too bad for the building that gets its space back last.

A new moving picture theatre is being erected on Park Avenue where seats will only be sold on a subscription basis by the year. . . . Due to the housing shortage cooperative apartments are becoming the vogue again—certainly a new era we are living in. By the way, there are certain real estate security issues which would be helped considerably if their apartments are sold co-operatively. Bondholders should suggest it to the management of their properties. Two properties where we think it could be done advantageously might be the Majestic and 1088 Park Avenue.

Traders are waiting for the June interest payment on The Broadway-Barclay bonds. They pay fixed interest at 2% plus an extra on June 1, earnings permitting. Current market price of the bonds place a value of only $3,600,000 for the property. The property cost over $8,000,000 in 1926. Current market is 57-58½ and a better interest payment than last year (2.4%) may cause the bonds to sell at a higher price more commensurate with their intrinsic value for land, brick and mortar.

Laymen are wondering at the reorganization of the Windemere Hotel. In the previous reorganization the bonds were secured by a mortgage on the property and a pledge with the trustee of the entire capital stock of the company duly endorsed in blank for transfer together with a deed to the property not to be returned to the owners until the mortgage was reduced to $1,300,000. Bonds and mortgage which are due this year still amount to $2,565,500 and the owner is in court with a reorganization plan again.

Henry Benson Is With Wm. E. Pollock Co.

Henry Benson, Warrant Officer, AUS, has been released from duty and is now associated with Wm. E. Pollock & Co., Inc., 20 Pine Street, New York City, in the sales department. Before he entered the army, he was with Salomon Bros. & Hutzler for over ten years.

Henry Benson

R. F. Ruth & Co. Is Formed in Los Angeles

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Reuben F. Ruth III has formed R. F. Ruth & Co. with offices at 639 South Spring Street to engage in the investment business. Associated with him will be William S. Cook, Sheppard W. King, Jr., and Edwin H. May. All were formerly with Hope & Co., of which Mr. Ruth was manager.

Public Utility Securities

Public Service Company of New Hampshire

A number of new utility operating company common stocks are making their debut to the investing public this year. Scranton Electric appeared last week and (subject to SEC approval) Public Service Company of New Hampshire common stock is slated for offering this week.

The company is a subsidiary of New England Public Service Company and while the parent company is not yet disposing of its stockholdings, the company is doing some preliminary "streamlining." The $21,080,000 1st 3¼s of 1973 are not being disturbed, but the $2,000,000 Serial Notes are being retired, the $6 and $5 pfd. stocks reduced in amount and refunded, and additional common stock is being sold to the public in order to improve the capital set-up (cash realized being used mainly for the retirements mentioned). With the new set-up and eliminating plant intangibles, capital ratios are estimated at 48% bonds, 24% preferred stock and 28% common equity—a moderate improvement over the theoretical "norm" of 50-25-25.

The company is largely hydroelectric, with steam operations only about 28% of the total, although in a low-water year steam power might amount to 50% of the total. Last year and thus far this year water conditions have been excellent. Share earnings would, of course, be lower in a low-water year — perhaps to the extent of 5% or 10%, it is estimated.

A pro forma income statement for 1945 in the preliminary prospectus, after adjustment to the new tax law, indicates over-all coverage of fixed charges and estimated preferred dividends of 3.05 in 1945. Dividends have been paid on the old preferred stocks since the company's organization in 1926.

Share earnings and dividends on the common stock are difficult to appraise accurately because of the unusual character of the common stock issue. The company will offer exactly $5,000,000 worth of stock, and until the bids are received it will be impossible to arrive at the exact number of new shares which will be issued. The present outstanding 137,180 shares of common (no par) which are all owned by NEPSCO, will be exchanged for 565,553 shares of new $10 par value common. If the company received a net price of $37 a share, the additional amount issued would be approximately 135,000 shares, bringing the total to approximately 700,000—a convenient round figure.

Pro forma net income in 1945 was $1,436,589 after new preferred dividends. However, this does not take account of tax savings under the new law which would have amounted to an estimated $634,000, bringing the adjusted pro forma earnings to $2,070,000—equivalent to about $2.97 a share on the estimated number of common shares.

The company has indicated its intention to inaugurate a policy of distributing in dividends about $270,000 quarterly (equivalent to about 38c a share). However, this would amount to only a little over half the adjusted pro forma earnings and the possibility of an increase in the rate (if earnings are maintained at the estimated level) may prove a factor in the marketing of the stock.

The company is understood to have excellent management, reasonably low residential rates as compared with neighboring companies and good labor relations (a wage increase of about 10% having been granted). A logical stock with which to compare it would seem to be Central Vermont Public Service currently selling around 25 to yield about 4.33%, although New Hampshire's growth prospects should be somewhat better than Central Vermont's, and allowance must be made for New Hampshire's conservative initial dividend rate.

Paul Bareau to Leave For England Shortly

WASHINGTON, D. C., May 8.—Paul Bareau of the British Treasury staff in Washington is returning to England within a few days. Mr. Bareau, who has been serving as economist and public relations officer under Mr. R. H. Brand, was a member of the British delegation at the Savannah Fund and Bank meetings. He is now leaving the Government service to return to his positions as banking editor of the "Economist" and deputy City (financial) editor of the "News Chronicle."

What Lies Ahead in the Home Building Field?

By WILLIAM K. DIVERS*

Special Assistant to Wilson W. Wyatt, National Housing Expediter

Housing official declares that his agency is anxious to end Government controls and intervention. States that some further price increases are necessary, preferably through premium payments to stimulate production. Warns, however, against dropping price controls, which would entail a boom-and-bust following the 1919-1921 pattern. Estimates that present labor force in home-building industry must be tripled by mid-1947, to fulfill the Government's program.

I have been asked to speak on "What Lies Ahead in the Home Building Field" from the viewpoint of a Government official. In order to present this subject in an orderly fashion I would first like to describe the Veterans Emergency Housing Program and to describe what steps have been taken with reference to the various parts of the program.

The Veterans Emergency Housing Program as approved by President Truman, provides for the start of 2,700,000 dwellings, principally for veterans, in 1946 and 1947.

The 1946 program calls for the start of 200,000 temporary dwellings from the use of surplus temporary war housing and surplus facilities, principally barracks, of the Army and Navy. Almost 100,000 of these units will be made available to universities and colleges to house veterans who are taking advantage of the educational provisions of the GI Bill of Rights and who could not otherwise enjoy the benefits of these provisions. The balance is being made available to cities and villages to provide emergency accommodations for veterans and their families. In the conversion of barracks to family quarters the use of building materials will be kept to a minimum and will be drawn so far as possible from government stocks. The fullest use will be made of materials not suitable for permanent construction. In discharging this responsibility, the Federal Public Housing Authority which has charge of this phase of the program has adopted the following general policy:

1. Materials used in construction of temporary dwellings shall be, wherever possible, those

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*A talk by Mr. Divers before the Mortgage Bankers Ass'n in New York City, April 29, 1946.

What Lies Ahead In Interest Rates?

By MILES L. COLEAN*

Housing Economist

Economist predicts that under current political philosophy interest rates will be kept artificially low. States that the country is operating under theory government ought to fix the rate at any level needed for accomplishment of stated objectives. Sees this entailing (1) formation of federally-capitalized credit institutions, isolating urban mortgages, farm loans, and considerable commercial loans from market rates of interest; (2) government bargaining with private lending institutions for a reduced rate in return for assuming part of lender's risk; and (3) combining government lending with subsidy to produce a rate lower than is available to the government itself—as in public housing operations.

We have been taught to believe that the rate of interest was something determined by the supply and demand for capital. The level of the rate was a market phenomenon.

Governmental regulation or restriction of the rate where it was evolved at all under this theory, was intended simply to protect the ignorant or weak borrower from unscrupulous lenders. Even Adam Smith condoned regulation on this basis. Referring to successive lowerings of the legal rate in England up to his time, he remarked:

"All these different statutory regulations seem to have been made with great propriety. They seem to have followed and not gone before the market rate of interest, or the rate at which people of good credit customarily borrowed."

With the last decade or so, we have seen the appearance of a new interest rate theory—a theory that the rate ought to be at any level determined to be appropriate for the accomplishment of stated objectives.

With the theory of the interest rate goes a new theory of the nature of capital formation. In our distant school days, it was assumed that capital formation was the result of savings, that in order to obtain capital for investment some inducement to saving was necessary.

The new policy stems from quite a different point of view. It assumes first of all that, in a highly industrialized economy, there need no longer be any special incentive to saving. As stated before the Temporary National Economic Committee by Adolph A. Berle, Jr.: "When the scientific development which began in 1900 began to reach its peak, we suddenly found ourselves in a state of affairs which is frequently described as a surplus economy, by which I mean that the productive mechanism of the country could produce more than the effective demand. At that point there was no particular need to bribe or cajole or reward anyone for not consuming, because if he consumed everything he was able to there was still capacity left over, and at that point the economics have distinctly changed."

As a corollary to this assumption, it was taken that the compelling factor in the investment process was no longer the incentive to the saver, but the need for capital funds, and that the rate of interest was not to be determined by what is necessary to cajole a saver, as Mr. Berle puts it, but by what was needed to get a partic-

(Continued on page 2521)

*A talk by Mr. Colean before the Mortgage Bankers Ass'n, New York City, April 29, 1946.

Seaton Bowlin With Sills, Minton & Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — Seaton A. Bowlin has become associated with Sills, Minton & Co., Inc., 209 South LaSalle Street, members of the Chicago Stock Exchange. Mr. Bowlin was formerly with Mason, Moran & Co., and prior thereto was manager of the municipal department for Thompson Ross Securities Co.

Dinner Meeting of La Salle Street Women

CHICAGO, ILL. — La Salle Street Women will take a flying trip to Mexico with a technicolor film as its "magic carpet," at its dinner meeting, 6:15 p.m. May 15, at Martin's Restaurant, 120 South La Salle Street, Chicago. Fernando R. Capevielle, advisor and lecturer on domestic and international air travel via American Airlines System, will "personally conduct" the tour. Senor Capevielle is an officer of the Mexican Chamber of Commerce and a member of the Board of Directors of the "Circulo Mexicano," a club designed to foster closer relationship between the citizens of Latin America and travelers from the United States.

"Fact-Finding"

By ROGER W. BABSON

Asserting Government fact-finding committees "are the bunk," Mr. Babson points out it is a crazy idea to think a few men in a few weeks can gather facts on which to base wages. Holds pending Minimum Wage Bill is the greatest inflation-producing law ever conceived and urges more production of better products and "spiritual awakening" as better wage-price factors than fact-finding.

There are many subjects of which I know nothing; but a few concerning which experience has taught me much. One of these is "fact-finding." My entire life has been given to this.

Roger W. Babson

Beware of the Bunk

Hence, I am much interested in the various "fact-finding" committees which are being appointed by the government in connection with labor disputes. Well, let me say that most of them are the bunk. The idea is crazy that three men, unacquainted with an industry, can—in four weeks or even four months—get enough facts about that industry to say whether wages should be increased 5 cents or 20 cents.

To add to this bunkum, our good President goes into a trance and, by palmistry or tea-leaf reading, pulls 18½ cents out of the blue sky and calls that "fact-finding." It has long been an old joke that there are three kinds of lies, namely — "simple lies, damned lies and statistics." Well, that joke should now be amended to include a fourth kind of lie—the worst of all—namely, "fact-finding."

Wage Increases Cause Inflation

However, as a result of this bunkum we are now having *wages* artificially fixed by one fact-finding board, *prices* fixed by another fact-finding board, *hours* fixed by another fact-finding board, *profits* fixed by another

(Continued on page 2547)

Railroad Securities

Illinois Central is expected momentarily to make a new offer to holders of underlying bonds maturing in the early 1950s in a further attempt to consolidate its very complicated debt structure and get a substantial portion of its heavy early maturities out of the way. The bonds to be affected are those for which tenders were requested late last year, consisting of all of the divisional liens covering mileage north of the Ohio River. In addition, an offer will be made to holders of the Chicago, St. Louis & New Orleans Consolidated 3½s and 5s and the Memphis Division 4s, 1951, which bonds were not included in the original call for tenders. Apparently the only bonds maturing from now through 1952 which are not to participate in the new plan are the Cairo Bridge 4s, 1950 which are outstanding in the amount of only about $2,000,000.

The total of bonds to be made an offer in the new plan is indicated at just slightly under $50,000,000. In all, thirteen different issues are involved and seventeen individual series of bonds. All of the holders are to be offered par for par in a new 1st & Refunding 3⅛% bond maturing in 1976. In addition, there would be varying amounts of cash offered to holders of the individual series. With respect to the bonds on which tenders were asked last year the cash bonus would be the same as the maximum premium paid in the tender operation. The cash payment on the Chicago, St. Louis & New Orleans 3½s would be $76.25, on the 5s it would be $147.50 and on the Memphis Division 4s it would be $108.75. It is generally expected in financial circles that the new plan will meet with considerably greater success than the initial tender offer when only $15,504,000 out of roughly $54,000,000 affected bonds were accepted.

Following the exchange offer to the underlying bonds, and presumably depending on its success, the company will move on to the long awaited refunding of the $35,000,000 Refunding 4s and 5s, 1955. These bonds are next callable on November 1, at 107½. It is proposed to effect this refunding through public sale of a second series of the new 1st & Refunding Mortgage which is to be offered to holders of the near maturity underlying bonds. This new mortgage will have a senior lien on the entire northern section of the system and presumably a junior lien on the southern part, and should readily qualify as a sound investment medium. The belief that the new bonds should sell at a premium, even with the recent weakness throughout the bond market, is the reason for the expectation that the new plan will be better received than the call for tenders last year.

Illinois Central has for some time engaged in an aggressive debt retirement program and even without allowing for the new plan it is indicated that fixed charges have been reduced to an annual level of roundly $12,000,000. Success of the new plan and refunding of the outstanding 4s and 5s, 1955 at a lower interest rate could well reduce the annual requirements below $11,000,000. This compares with fixed charges of more than $17,000,000 supported ten years ago and should be supportable by a comfortable margin even in periods of subnormal general business activity. It is notable that during the past ten years income available for charges, before Federal income taxes, has never dipped as low as $17,500,000. Perhaps even more important than the reduction in fixed charges has been the gradual elimination of what appeared a few years ago to be an impossible maturity schedule in the early 1950s. Aside from the bonds which are to be made an exchange offer and the 4s and 5s, 1955 which it is proposed to call, the road has only about $38,000,000 of non-equipment maturities within the next fifteen years.

Reflecting the favorable implications of the pending proposals the Illinois Central common stock has been attracting increasing speculative interest in recent trading sessions and many rail analysts still consider it as having further wide appreciation potentialities.

Customers' Brokers Ass'n Cite Views on SEC Proposed New Issue Rule

In line with our request for comments from dealers and others regarding the proposed SEC rule pertaining to allotments of new security issues to so-called "insiders," we have received a copy of a letter sent to the Commission under date of April 30 by the Association of Customers' Brokers of New York City. This letter is reproduced below and, in this connection, we should like to repeat our invitation for comments from others regarding the proposed rule. Letters should be addressed to **Editor, Commercial and Financial Chronicle, 25 Park Place, New York 8, N. Y.** (The accompanying communication, incidentally, is the thirteenth to be published on the subject, the earlier ones having appeared in previous issues, starting with that of April 25.)

Securities & Exchange Commission
Philadelphia, Pa.

Attention: Mr. James A. Treanor, Jr.
Reference: Proposed Rule X-1502-3

Gentlemen:

The above proposed rule regarding which you asked for comments and suggestions of interested persons in your press release of April 16th, was discussed at a recent meeting of the Executive Committee of the Association of Customers' Brokers. A resolution was passed requesting that the consensus of our meeting be conveyed to your commission.

While we favor regulations which may be necessary to eliminate and prohibit abuses in the distribution of securities, we feel that the wording in paragraph (b) of the proposed rule is not sufficiently clear. We suggest that this be clarified so that estate accounts, trustee accounts and accounts of relatives in which partners, employees or dealers have no beneficial interest shall be specifically exempted from the provisions of the proposed rule. The principals in such accounts are part of the investing public and are entitled to the same consideration as all other customers. We trust that such is the intention of the proposed rule, since anything to the contrary would discriminate against the constitutional rights of one particular group of clients.

In our opinion, the public interest is served only to the extent that all groups are treated equally.

Respectfully yours,
ASSOCIATION OF CUSTOMERS' BROKERS
DCB:po'd Donald C. Blanke, President,
for the Executive Committee.

NY Security Analysts To Hold Annual Meeting

The New York Society of Security Analysts, Inc. will hold its annual meeting on May 28th, according to announcement by N. Leonard Jarvis, President of the Association. The meeting, which will be held at 1 p.m. at 56 Broad Street, will be a business meeting for members only, and it is asked that no guests be invited.

Business of the meeting will include a vote on the adoption of certain proposed amendments to the Constitution, the election of officers and members of the Executive Committee, and a vote on a proposal for the use of identifying badges for use of members at the luncheon forums.

The nominating committee has presented the following slate:

President: Pierre R. Bretey, Baker, Weeks & Harden.

Vice-President: Shelby Cullom Davis.

Secretary: Glenelg P. Caterer, Lionel D. Edie & Co.

Treasurer: Irving Kahn, Wertheim & Co.

Executive Committee for term of two years: Eugene J. Habas, Lehman Corp.; George E. Shea, Jr., Barron's; D'Arcy Parrott, Fahnestock & Co.; John W. Spurdle, Dominick & Dominick; Edwin L. Thompson, Tucker, Anthony & Co.

Executive Committee for term of one year: Ralph A. Rotnem, Harris, Upham & Co.; Truslow W. Hyde.

In the event the proposed amendment is voted providing for the appointment to the Executive Committee of the last five ex-presidents of the Society, Warren Clark, Brundage, Story & Rose, is also nominated to the Executive Committee for a term of one year.

E. Ralph Sterling, Merrill Lynch, Pierce, Fenner & Beane, has been nominated as a member of the executive committee for a term of two years by petition.

Let's Get the Black Market's Hand Out of the Traveler's Pocket!

The underground sale of sleeping car space is a national scandal. The railroads cannot escape responsibility. The C & O Lines offer a solution that will kill the racket—if other roads will join.

HAVE you tried to make a sleeper reservation lately?

If you travel very much, you must have run into a situation that is being reported by angry passengers all over America. No space for sale at the ticket windows. But plenty of empty berths and rooms when the train pulls out.

Often you can't buy a ticket through legitimate channels. But you can get one any time, by going to the "right" person and greasing him with the "right" price.

Here are just a few of the typical cases that have been reported to the C&O:

Mr. X. in New York, needing to go to San Francisco, asked what was the earliest moment at which reservations could be made. He was told 8:00 A.M. of a certain date. At 8:00 A.M. on that date he was in front of the ticket window—the first in line. When the window opened he was told the train was sold out. He managed to get accommodations to Chicago by paying a black market price. In Chicago after 5 hours of desperate effort he got space on the "Chief"—by paying $20 extra to a gouger. On board the "Chief" there was plenty of unoccupied space. The conductor explained that it was due to "last minute cancellations."

Mrs. K., a service wife, planned a little trip for her husband's furlough. Unable to get space, she tried the black market. Space was offered at double the normal price. She couldn't afford it. A travel agent offered her space if she would stop at a very expensive hotel—which, again, she couldn't afford. The K's didn't get their trip.

Miss Q. had an experience in a New York station. She was told cancelled tickets for her destination would go on sale at 10:00 o'clock. She waited in line more than half an hour. When a ticket was brought back, a man behind her held up some money. The ticket seller said there was no space for sale. The line dispersed, but Miss Q. waited and saw the man with the bribe come back and instantly get his ticket.

These are not mere wartime experiences. People by the thousands are having them today. And whether or not many railroad or Pullman employees are directly involved in the scandal, neither the railroads nor the Pullman Company can escape responsibility. For slipshod policing, and inability to see the need for reforms, leave the door wide open to racketeers.

What Becomes of All the Space?

Sleeping car tickets can be bought up weeks in advance—in "blocks"—by hotels, travel agencies, or by anyone who has the money to pay for them. There is nothing to prevent this space leaking into the black market except the honesty of the man who buys it.

The space is bought and paid for in advance, but, if it is not re-sold, it can be turned in for a refund up to the minute of train departure. Therefore, anyone who wants to run a black market in sleeping car space can do so without any financial risk.

Reform Agitated Since 1943

For more than three years the C&O has been trying to get other railroads and the Pullman Company to agree to action that would kill the ticket racket. A proposal of a 25% forfeiture on tickets not cancelled in a reasonable time was voted down because "passengers would be offended." Lame duck excuses were offered for the status quo, and the black market grew and flourished while the railroads lost revenue.

Simple Remedy Would Help Greatly

The C&O proposes that all "block" sales of sleeping car space be stopped at once. All space should be reserved or sold in the name of the individual who intends to use it. Tickets should be non-transferable. Hotels, travel agencies and business houses could follow their present system, except that the space would have to be reserved or sold in the name of the individual passenger.

The Airlines do it this way, and they have never had a black market. And any objection that such a plan would be "offensive to passengers" is ridiculous in comparison with the offense of the present system of bribing your way on to trains!

What You Can Do

If you no longer want to tolerate the greedy hand of the black market in your pocket—or be content with a refusal of space when you know that many berths are empty—*write to your newspaper*. If enough Americans will ask the support of the press, the ticket racket—like the "Chinese Wall" that blocked through service at Chicago and St. Louis—can be broken.

Chesapeake and Ohio Lines
Terminal Tower, Cleveland 1, Ohio

CHESAPEAKE AND OHIO RAILWAY
NICKEL PLATE ROAD
PERE MARQUETTE RAILWAY

Bank and Insurance Stocks

By E. A. VAN DEUSEN

This Week—Insurance Shares

During the war years, fire insurance companies strengthened their capital funds and liquidating values very substantially. Despite heavy marine losses in the opening months of the war and excessive fire losses during the last three years, the majority of companies covered dividends throughout the period by good margins and ploughed back undistributed earnings. As a result, their surplus accounts on Dec. 31, 1945 are considerably larger than on Dec. 31, 1939. Furthermore, due to the increasing volume of business written each year during the period, their reserves for unearned premiums are at new high levels, as also are liquidating values.

The following tabulation shows the surplus, unearned premium reserves and liquidating values for 25 representative stock fire insurance companies for Dec. 31, 1945, compared with Dec. 31, 1939.

	Surplus 12-31-39	Surplus 12-31-45	Unearned Prem. Reserves 12-31-39	Unearned Prem. Reserves 12-31-45	Liq. Val. per Share 12-31-39	Liq. Val. per Share 12-31-45
	(000's Omitted)					
*Aetna	$25,175	$29,595	$19,708	$31,329	$60.98	$78.89
*Agricultural	5,556	7,012	5,757	8,127	90.49	118.60
American Equitable	2,923	7,615	4,933	11,661	29.48	47.01
Baltimore American	2,391	3,645	2,059	2,723	7.86	10.39
Bankers & Shippers	2,199	2,924	3,575	3,716	115.72	135.26
*Boston Insurance	15,443	19,200	4,616	6,802	70.32	87.06
Camden	4,286	6,294	5,780	8,068	21.50	29.11
City of New York	1,590	2,594	2,156	2,185	26.35	33.12
*Continental	67,033	98,633	19,679	29,409	41.93	67.88
*Fidelity-Phenix	52,324	84,171	15,451	22,814	44.14	75.77
*Fire Association	10,213	14,061	8,650	11,028	81.83	92.36
Franklin	8,946	12,026	6,807	8,801	24.45	30.91
*Great American	25,942	39,910	13,147	19,038	29.70	46.55
Hanover	5,516	10,247	5,256	8,584	29.05	45.90
*Hartford	62,776	93,407	33,868	50,477	90.95	140.61
*Home	49,870	59,321	48,051	61,920	23.71	39.00
*Ins. Co. of N. A.	67,793	88,223	21,621	33,245	79.34	110.71
National Liberty	9,169	11,647	5,567	8,465	7.70	9.52
New Brunswick	2,121	2,444	1,580	2,262	37.53	43.48
*New Hampshire	9,117	9,198	4,687	7,909	48.57	57.63
New York Fire	2,198	3,319	2,466	4,859	20.90	31.62
North River	14,538	19,308	6,070	8,404	23.71	31.23
*Phoenix	46,662	57,145	8,726	12,989	98.13	122.78
*Security	5,250	7,734	4,078	6,980	46.09	57.04
U. S. Fire	20,739	29,064	10,218	14,857	53.65	74.96
Total	$519,770	$728,737	$264,506	$386,652		

*Consolidated basis for liquidating value.

Total surplus accounts of the twenty five companies now aggregate $728,737,000 compared with $519,770,000 at the opening of the war period. The increase is approximately $209,000,000, equivalent to 40%. Total unearned premium reserves have grown from $264,506,000 to $386,652,000, an increase of $122,146,000 or 46%. Liquidating values of all companies are higher by an average of around 36%.

Better-than-average gains in liquidating values were made by American Equitable, 59.5%; Continental, 61.9%; Fidelity-Phenix, 71.7%; Great American, 56.7%; Hanover, 58.0%; Hartford, 54.6%; Ins. of North America, 39.5%; New York Fire, 51.3%; and U. S. Fire, 39.7%. The four lowest gains were: Bankers & Shippers, 16.9%; Fire Association, 12.9%; New Brunswick, 15.9% and New Hampshire, 18.7%.

During the period under consideration there have been a number of capitalization changes. For example, American Equitable increased its capitalization from $1,000,000 to $1,500,000 in 1944 when Knickerbocker was absorbed. Boston Insurance split its shares ten for one in 1945, but capitalization remains the same at $3,000,000. Continental Insurance increased its capital in 1945 from $5,000,000 to $20,000,000 through a change of par value from $2.50 to $10.00 and a transfer of $15,000,000 from surplus. Fidelity-Phenix similarly increased its capital from $3,750,000 to $15,000,000. Fire Association increased its capital from $2,000,000 to $2,400,000 by a 20% stock dividend in 1945.

Insurance of North America increased capital from $12,000,000 to $15,000,000 in 1945 by the issuance of 300,000 new shares, and Security of New Haven issued 50,000 new shares in 1943, increasing its capital from $2,000,000 to $2,500,000.

By and large the fire insurance companies have ample capital finances to carry a larger volume of business than is now on their books. This is particularly true of such companies, for example, as Continental, Fidelity-Phenix, Great American, Hartford Fire, Insurance Co. of N. A. and Phoenix, which have especially high ratios of capital and surplus to unearned premium reserves and to premium volume.

Market-wise, fire insurance stocks, as measured by Standard & Poor's weekly index, have been moving steadily and quietly upward since their lows of 1942. The index low of 1942 was 86.8; the most recent high was 146.7, established on February 6, 1946; this represents an appreciation of 69.3%. On January 2, 1946 the index was 135.0, while the latest index on May 1st, was 143.6, or 6.4% higher. The present level is substantially above the post-1929 high of 1936, when the index reached 124.3. The 1929 high was 249.1.

Compared with the Dow Jones industrial average, which has more than doubled since its 1942 low of 92.92, fire stocks are lagging behind the market.

Kleeman Heads Ecuador-Amer. Assn.


Arthur S. Kleeman

Arthur S. Kleeman, President of Colonial Trust Company of New York, was elected President of the Ecuadorian-American Association, Inc., at a meeting of the Board of Directors held recently. Robert D. Merrill, of All America Cables & Radio, Inc., is Vice President and Secretary, and George Magalhaes, of Westinghouse Electric International Company, is Treasurer. Outlining the plans of the Association for the immediate future, Mr. Kleeman said:

"In the opinion of the directors of the Ecuadorian-American Association, Ecuador is on the threshold of her greatest development, if we can but help her to broaden outlets for her natural products, thus providing her with a continuing supply of dollar buying power. Therefore, this Association is about to devote its immediate efforts to a detailed study as to what Ecuador presently has to sell, and how many more of her products can be made saleable; at the same time, we intend to study the needs of the country, and to publicize what those needs are, in an endeavor to aid American business men in filling them.

"Ecuador is represented in the United States by a forward-looking Ambassador who is without partiality in his desire to build the Ecuadorian-American relationship upon a mutually advantageous cultural and commercial interchange between the two countries. Every officer and director of this Association is determined to clear up misunderstandings between the business interests of our two countries, and to facilitate a smoothly running and profitable cooperation."

Other directors, in addition to the above named officers, are James S. Carson, Vice-President, American & Foreign Power Co., Inc.; James Magner, Grace Line, Inc.; Frederick Hasler, Chairman of the Board, Continental Bank & Trust Co.; Paul W. Alexander, Chairman of the Board, Wessel, Duval & Co., Inc.; J. T. Wilson, Manager, World Trade Division, International Business Machines Corp.; George H. White, Standard Oil Co. of N. J.; Adriano Cobo, Quito, Ecuador; Robert H. Patchin, Vice-President, W. R. Grace & Co.; Christopher DeGroot, General Traffic Manager, Pan American - Grace Airways, Inc.; John LaHoud, Para Ti Corp.; John L. Merrill, Chairman of Board of All America Cables & Radio, Inc.

Francis Stone Forms Co.

LOS ANGELES, CALIF.—Francis J. Stone is forming Francis Stone & Co. to engage in the securities business from offices at 167 South Vermont Street. Mr. Stone was formerly with Nelson Douglass & Co., Klehmet & Co. and Henry Dahlberg & Co.

Senate Silver Bill to Face House Opposition

Congressmen Rooney, Ludlow, Smith and Celler express dissatisfaction with it. Senate Appropriations Committee await meeting with House conferees.

WASHINGTON, May 8.—It has been understood that the silver "compromise" worked out by silver-mining and consuming representatives in the Senate Appropriations Subcommittee last week and reported in the "Chronicle" would not be approved by the full Senate Appropriations Committee before the House conferees should also have consented. Until the Senate as a whole acts on the Treasury appropriation bill, the House will not formally appoint its conferees, but custom dictates that they shall be a group of seven members of the House Appropriations Committee, headed by Rep. Louis Ludlow of Indiana. Inquiry by the "Chronicle" early this week failed to disclose that the conferees had made up their minds on the silver rider in its now amended form.

Rep. John J. Rooney of New York, author of the original House rider calling for the Treasury sale of silver to industry at 71.11¢ an ounce, when questioned by the "Chronicle," said: "While I am not to be a member of the conferees on the bill, I hope the matter can be successfully worked out, so that industrial users of silver can get some relief. There is no sense in so much badly-needed silver lying around idle in Treasury strongboxes. As for the $1.29 price provision which the silver-mining Senators have added to my original rider, I think the price is entirely too high. There is no necessity for Congress making such provision. We should take care of such a proposal only when the necessity arises. Then, if there is justice in their claims, the silver producers can get their due.

"I am decidedly against the provisions in the Senate compromise repealing the silver transactions tax and other powers of the Administration over silver. . . . If a compromise with the mine interests becomes necessary, we might have to go along on some of the Senate amendments to my rider, because industry is now in serious need of the metal."

Rep. Ludlow informed the "Chronicle" correspondent that early last week he had received the text of the Senate compromise and had requested an opinion from the Treasury Department, but up to the time of the inquiry no reply from the Treasury had been received. Mr. Ludlow did not seem to think the Senate changes would meet House approval.

Elsewhere in Washington the "Chronicle" hears the view expressed that the House, having several times in recent years

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Officers Elected by Bond Club of Toledo

TOLEDO, OHIO — The Bond Club of Toledo announces the election of the following officers, governors and committee members for 1946-1947:

President — Edward P. Liska, Braun, Bosworth & Co.; Vice President — Don Craft, Collin, Norton & Co.; Secretary—Warren D. Williams, Ryan, Sutherland & Co.; Treasurer—Louis J. Reimer, Stranahan, Harris & Co.

Board of Governors, in addition to the officers: E. F. Heydinger, Roose & Company; J. F. Norton, Fahey, Clark & Co.; Ford R. Weber, Ford R. Weber & Co.

Committees — Entertainment: Burt T. Ryan, Ryan, Sutherland & Co., Chairman; Oliver Goshia, Goshia & Co.; Durwood C. DuBois, Stranahan, Harris & Co.; Guerdon D. Smith, Collin, Norton & Co.; Celian H. Rorick, Spitzer, Rorick & Co.

Membership: Calvin M. Yeasting, Ford R. Weber & Co., Chairman; J. F. Norton, Fahey, Clark & Co.; George Todd, Bell & Beckwith.

Legislative: Robert S. Mikesell, Stranahan, Harris & Co., Chairman; Hazen S. Arnold, Braun, Bosworth & Co.; Oscar Foster, Foster Bros. Young & Co.

Speakers & Publicity: Erwin J. Ward, Roose & Co., Chairman; James R. Easton, Spitzer, Rorick & Co.; Paul P. Prudden, Jr., Foster Bros. Young & Co.

Finance: W. H. Schliesser, Stranahan, Harris & Co., Chairman; Leonard C. Cooper, Goshia & Co.; C. Guy Struble, Guy Struble & Co.

The Bond Club of Toledo will hold its Twelfth Annual Golf Outing at Inverness Country Club on Friday, July 19, 1946, to which guests are being invited.

Milton C. Brittain With Cruttenden & Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Milton C. Brittain has become associated with Cruttenden & Co., 634 So. Spring St. In the past he was manager of the trading department for Bateman, Eichler & Co.

Herman to Head Dept. Of Hamershlag, Borg

Hamershlag, Borg & Co., 20 Broad Street, New York City, members New York Stock Exchange, announce that Edward P. Herman, formerly Lt. Colonel, Q.M.C. Chief, Appeals Section, Reorganization Branch office of the Quartermaster General, has been released from active duty and renewed his association with the firm. He will head the firm's new business department.

N. Preston Gardner With Broad St. Sales

Broad Street Sales Corp. announces that N. Preston Gardner is associated with their firm as Southeastern Wholesale Manager, located at 401 Fourth Street, South, St. Petersburg, Fla.

"Our Reporter on Governments"

By JOHN T. CHIPPENDALE, JR.

The Government bond market is now entering a period of stabilization, after some very wild price movements, which were due largely to a very poor technical and psychological condition. . . . This does not mean that there will not be price fluctuations, because there most certainly will be, but price changes should not be as wide and sharp as in the recent past. . . . There will be bids available so that the chaotic conditions of a market without buyers should not be bothering us again for some time to come. . . . This period of adjustment, which will help in improving the technical condition of the market, will witness the movement of bonds from short-term appreciation-minded holders to permanent investors. . . .

Price will be of utmost importance in this transfer of holdings, which will no doubt mean that institutional buyers at the beginning of this transition period will be interested only within certain limits, and will not be inclined to reach too high in their quest of securities. . . . They know that there are substantial amounts of restricted bonds, variously estimated between $3 billions and $5 billions, that will be seeking new homes. . . . Likewise it is evident that between May 15 and June 8 the Victory Loan bonds will become long-term holdings for tax purposes. . . .

SUPPLY ADEQUATE

The supply side of the equation seems to indicate no immediate lack of securities for non-bank investors. . . . On the other hand, some of the speculative holdings were no doubt liquidated, despite the small volume of business that was done during the sharp decline of the last month. . . . In past years there have been at least two large-scale loans that supplied securities to the market. . . . There have been no such drives this year and most likely there won't be any public offering of securities until 1946 is well along in its waning days, if then. . . . Debt retirement has taken bonds out of the market, so that even non-bank investors have had some additions to their investable funds from this operation. . . .

It could be that this transfer of speculative holdings of Government bonds to investors will serve to some extent to replace loan drive offerings of obligations, and furnish the market with needed securities. . . .

It seems as though institutional buyers, particularly savings banks and insurance companies, which bought more than $10 billions of restricted bonds in the last two drives, will be able to absorb very readily the increased floating supply of issues that are overhanging the market. . . .

INSTITUTIONS' CALL TURN

Institutional buyers for the time being are in the driver's seat, and this probably means that they will try not to appear too anxious to take on the securities that are being offered. . . . There is no doubt about the demand that exists for these bonds among the institutions, and this demand is all the more evident when one notes that these same buyers have been purchasing corporate obligations at prices that make the best credit in the world, namely, United States Government obligations, look very attractive. . . .

There will no doubt be plenty of backing and filling during this transition period, which should mean a good trading market . . . The elimination of daily price limits will again allow the dealers to function in a more normal manner, which will have a stabilizing influence on the market in both directions. . . .

RATES WILL REMAIN LOW

The recent statement by M. S. Szymczak, a member of the Board of Governors of the Federal Reserve System, concerning the debt cost seems to indicate that the ⅞% rate for certificates of indebtedness will be continued indefinitely. . . . It is believed that an agreement was reached between the Treasury and Federal at the time of the elimination of the preferential discount rate, that there would be no increase in the certificate rate, despite the clamor in some quarters for a 1% rate. . . . Mr. Szymczak's assurance that there would be no increase in the debt burden certainly means a policy of low interest rates. . . . Continued low interest rates, with a financing pattern from ⅞% certificates to long-term 2½s, and the Government retiring debt instead of creating it, seems to be bullish for the outstanding Government obligations. . . . Despite the sharp decline that has taken place in Government bonds, one could not say that we have high interest rates, with long-term Governments yielding only 2.30%. . . .

As a matter of fact, there are some money market followers who believe that prices of long-term bonds by late fall will be well in excess of these levels despite the allowance for lower prices during the period of readjustment. . . .

They point out that times of price weakness are buying opportunities. . . . They believe that buying in a declining market (if such may be the case with this one) as speculative holdings are liquidated, could be the best buying opportunity that will be available for a long time to come. . . . They do not believe that prices will go back to the old tops and stay there, but they do feel that a yield near 2.20% will again be in style for the long restricted 2½s, following the temporary shakeout that the market is going through. . . .

STABLE MARKET NOW

Although there will be many price changes in the readjustment period, the market has probably been through its worst days, which caused plenty of excitement for traders and day-to-day followers of the market. . . . Investors who bought bonds for income have not been too concerned with these price gyrations. . . . Buyers of Government obligations for income should now be doing scale buying so that a good average yield will be obtained. . . . They should be interested in the return, with appreciation decidedly of secondary importance. . . . It seems as though the sooner the Government bond market stops acting like the stock market, the better it will be for all concerned. . . .

Therefore bank-eligible intermediates on a 1.40% basis and the long 2¼s on a 2.10% basis seem attractive for scale buying. . . . The long restricted 2½s at about 103 have appeal for scale accumulation. . . . Good average prices should result from such buying. . . .

BUYING ON DECLINE

New York City member banks which reported a decline of $129,000,000 in bonds on March 20, due largely to the retirement of the 3¾s on March 15, have been adding each week to their holdings of Government bonds, so that these securities on May 1 amounted to $9,672,000,000, an all-time high for these institutions. . . . Since March 20, the New York City member banks have acquired $370,000,000 of Government bonds, of which $134,000,000 were bought from March 27 through May 10. . . . During this period the short- and intermediate-term eligibles were unchanged to lower, while the long bank eligibles made all-time tops on April 6. . . . From April 17 through May 1, when the bond market was dropping sharply, these institutions bought $236,000,000 of Government bonds. . . .

While these banks were buying bonds during the rising phase of the market, they accumulated larger amounts during the sharply declining period. . . . This has probably resulted in a good average price for the securities bought. . . .

Alexander Biddle Is Appointed Exec. V.-P. By Phila. Stock Exch.

PHILADELPHIA, PA.—Frank E. Baker, President of the Philadelphia Stock Exchange, following a meeting of the board of governors, announced the appointment of a full-time executive vice-president and promotions of two veteran officials.

Alexander Biddle, former investment banker and veteran of both World Wars, was named executive vice-president. Thomas B. Gravatt was promoted to be secretary of the Exchange, and John R. Huhn, Jr. to be executive vice-president of the Stock Clearing Corporation.

Mr. Baker stated that the action was taken in a move to expand the scope of activities of the Exchange which was founded in 1790 and is the oldest Stock Exchange in America. The step was necessitated by increased business and had followed precedent of the New York Stock Exchange. Of 11 principal regional exchanges in the United States, those in Chicago, Detroit, Los Angeles, and San Francisco have already made appointments of full-time executive officers.

Mr. Biddle will be responsible to the board of governors for general supervision and development of exchange activities, which will include public relations and such duties as obtaining new listings and business, relations between Exchange members, etc. Further expansion by Philadelphia Stock Exchange, the officials believe, will make it reflect more truly the importance of Philadelphia as a financial and business center.

Charles C. Nielsen Opens

SAN FRANCISCO, CALIF.—Charles C. Nielsen will engage in the securities business from offices in the Mills Tower.

Brooke L. Wynkoop Is With Fahnestock & Co.

Brooke L. Wynkoop has become associated with Fahnstock & Co., 65 Broadway, New York City, member of the New York Stock Exchange and other exchanges, Mr. Wynkoop has returned to Wall Street after four years' service in the U. S. Army. Formerly a lieutenant colonel of the Finance Department, he was on duty with the Headquarters, C.B.I. Theater, serving in the Central Fiscal Office.

Brooke L. Wynkoop

In the past he was manager of the public utility stock department of Riter & Co.; was with R. H. Johnson & Co., and was Vice-President of Distributors Group, Inc.

Lockett Shelton Opens As Investment Dealer

ABILENE, TEX.—Lockett Shelton has opened offices in the West Texas Utilities Building to engage in the securities business. Mr. Shelton in the past was Abilene manager for R. A. Underwood & Co. and Underwood, Edwards & Co.

Canadian Securities

By WILLIAM McKAY

Under the stern test of war Canada rose to unsuspected heights of achievement; the apparently less urgent but nevertheless greater requirements of peace call for even more heroic efforts.

The devastations of war have produced a new world, in which the role of the Dominion as the linch-pin connecting the British Commonwealth with this country is likely to be changed, with the result that Canada should be cast henceforth to play a still more prominent part. Great as the Canadian war effort was, it left the vast virgin resources of the Dominion relatively undepleted. On the other hand a tremendous toll was exacted from the dwindling economic reserves of the British Isles, and even the hitherto apparently inexhaustible natural wealth of this country was sorely taxed.

Today the stricken world, impressed by the prodigious wartime performance of the arsenal of democracy, regards this country as the limitless economic reservoir for universal rehabilitation. The British Loan question throws this situation into sharp relief. Apart from the problem of physical ability to meet the colossal universal demand it is more fitting that the process of British economic recovery take place within the British Commonwealth. If this were generally regarded as a strict necessity the stimulus to Canadian production and endeavor could be even greater than that inspired by the exigencies of war. Canada today supports a population of a mere 12 millions, whereas its vast empty spaces and its incomparable untapped reserves of natural wealth render the Dominion capable of supplying the answer to the world's greatest problem.

This country can continue to play its invaluable part in supplying capital requirements, and in this case the process would represent a safe and profitable constructive investment and not a subsidy involving the considerations of politics and foreign competition. The initial effort would unquestionably throw a severe strain on the Canadian economy and it is likely that the Canadian dollar would have to share in carrying the burden of the British pound. At a later stage however, the independent recovery of the British trade area would benefit not only the British Commonwealth but also this country and the world at large.

During the past week the market continued nominal with quotations again slightly lower in all sections. Free funds were a shade easier at 9¼%. Internal stocks were active with papers again to the fore.

With regard to the immediate prospects there is every season to foresee an accentuation of the downward trend as the Canadian market has not yet fully reflected the recent fall in U. S. Governments. Moreover the general decline in bond prices is likely to continue as the movement was caused by a fundamental change in basic conditions and was not the result of adjustments of a technical nature such as the abolition of the ½% preferential discount rate and the lifting of the restriction confining fluctuations to ¼ point. It would appear that the era of the normal peace time market has effectively commenced and it would not be surprising to see a further and more general test of the wartime interest structure.

Canada Lifts Ceilings On Steel, Newsprint

While adhering to its price ceiling policy, the Canadian Government has lifted prices applicable to a limited list of commodities, the Bank of Montreal reported in its monthly business summary, released for publication on April 24. Higher costs of steel production are recognized in the increased price of $5 per ingot ton, says the Bank and also in a rise of 12½% in the ceiling price of farm implements. The suspension of the price ceiling on newsprint, effective May 1, permits an increase of $9 per ton in the domestic price, bringing it in line with the current price of Canadian newsprint in the United States. Price increases have also been authorized for lumber, pulp and paper.

The housing shortage remains acute in most urban centers of the Dominion, according to the Bank, which reports that the Minister of Reconstruction recently estimated the construction needs for the next five years at 400,000 residential units and admitted that the goals of 60,000 new units set for the fiscal year ending March 31, 1947, and 80,000 for the following year cannot be met because of the shortage of essential materials.

SEC in Philadelphia On Daylight Saving

The Securities and Exchange Commission today announced that its Philadelphia office will observe Daylight Saving Time during the period April 28, 1946 to Sept. 29, 1946, in order to conform its business hours to those prevailing in the City of Philadelphia.

Regional offices of the Commission have been instructed to adapt their business hours to the time schedule prevailing in their respective localities. In Washington, the Commission's Liaison Office has been placed upon an 8:30 to 5:00 schedule, one-half hour later than in Philadelphia but one-half hour earlier than will pervail in Washington until and unless Daylight Saving Time is adopted there.

Hearing schedules will be conformed to the new time.

Peacock & Shorpe to Form New Securities Co.

ALLENTOWN, PA.—Roger T. Peacock and George A. Shorpe are forming G. A. Shorpe & Co. to conduct an investment business from offices at 538 Hamilton Street. Both were formerly connected with Warren W. York & Co., of which Mr. Peacock was office manager.

Kearns, Williams to Admit

Kearns & Williams, 11 Broadway, New York City, will admit Jack A. Warner to partnership.

Financial Problems—Domestic and Foreign

(Continued from first page)

of time brickbats thrown at it which did not injure it and major support, on the other hand, was given to the maintenance of it by all who saw the necessity for it maintenance. This yield curve was substantially held during the war. I think it is a fundamental point to recognize the fact that whereas this yield curve served its purpose and whereas it may again normally fall into a curving line of similar proportions, it must not be considered as a fundamental principle that that curve be maintained while applying ourselves to the present and future status of our debt structure.

I am in no position to phophesy at what points this former yield curve may be altered if at all but I do say the alterations, if they come, should be brought about by normal processes rather than by governmental control. The governmental control then would be needed only where normal or unexpected psychological changes develop in order to soften these movements and if necessary to prevent what might otherwise be disastrous temporary extraordinary movements of prices and money rates.

Governmental Controls

The second point is somewhat of a corollary to the other and is based upon the principle that governmental controls are, per se, wrong, which does not mean that under certain conditions temporary government controls may not be imperative. I emphasize the word "temporary." I apply this theory of controls to the financial departments of our government because I fear that the necessary controls established during the war may have produced a pattern which can become troublesome. The controls on money rates and therefore upon financial markets were recognized as a necessity during the war. In the course of their operation there was discovered by some a form of governmental control which worked and can today be made to work either towards easing money, maintaining easy money or permitting rates to rise. It seems now to become a more generally recognized principle than at any time in recent history that it is impossible for any one man or any one group of men to control any segment of our industrial and financial structure satisfactorily during peacetime—a failure due primarily to the fact that there does not seem to be and it is doubtful if there ever could be a single man or group of men who can grasp the complexities of our free enterprise system in its entirety sufficiently to establish general controls, it being difficult enough to establish some particular one.

It therefore appears to be a second fundamental principle in considering our debt structure that the conditions confronting our nation at the time of making decisions regarding our debt structure, as evidenced by supply and demand and other well-recognized fundamental principles of free action, must to a very large extent govern our actions.

Problem of Money Rates

For those who have given the greatest amount of thought to the problems that are at present confronting us, the problem of the trend of our money rates appears to be the most important. It would appear that as an inheritance from years of controlled rates during the war period there is a definite tendency to continue the process of easing money to a point where it could and in the minds of these individuals apparently had reached a danger point. I would consider that the problem confronting those who had made the greatest effort to reach conclusions upon it today has not been that the rates are low but that the rates be lowered. Action recently taken by some of the Federal Reserve Banks indicates at least a determination to correct a trend.

It would seem fundamentally wrong to have the impression established that money rates are necessarily on the upswing or that any change which it may be wise to permit can be little more than a stoppage of a downward trend. It must be recognized that there can come a point where the burden of debt service can become too great, by which is meant that the value of paying more for debt service by raising money rates can be offset by the loss in one form or another that might be caused by such a change upward.

It must be recognized that we are unquestionably facing a long period of time when money rates in this country, in comparison with rates for the last several decades, will be low, or they might better be extremely low.

In connection with that portion of our debt structure which has to do with short-term obligations, at which end of the curve the present changes inaugurated by the Federal Reserve Banks has been directed, it may be worth pointing out that there are some problems which might become fundamental and which therefore need continuing study.

I mention government bills, being cognizant of the necessity for maintaining a means by which the great banking institutions of this country may invest with a certainty of liquidity. No reference, therefore, is being made either to the rates presently existing or to the principle of having a governmental obligation definitely supported by the Federal Reserve System through a predetermined price at which such obligations will be purchased upon presentation. I do, however, refer to the bill situation, with particular reference to the mechanical means by which it is operated as a problem for the very reason that in principle it is not believed at present sound. If this is a fact, it is obvious that a study should be made of the bill market and the operations therein.

With reference to certificates and the certificate market as it immediately confronts us, one or two important points certainly need study. What is now said is not because I happen to be a dealer in government securities, in addition to other types of securities, but because it is possible that because of this fact I may be cognizant of certain difficulties that may arise, particularly with reference to the certificate market.

The "Penalty Rate" in Federal Reserve Credit

Over the years prior to the war it was a fundamental principle that was generally recognized that if an institution capable of rediscounting at the Federal Reserve Bank had to make use of its credit, it was obliged to do so at some penalty, thereby creating a policy that no institution would continue borrowing for the fun of it or for profit, beyond fundamental needs, because of this very penalty. It is questionable as to whether that principle is recognized today. In the past, and I definitely include the recent past during the period of the war, the government dealers have been a very sizable factor in handling the certificate market problems as they arose and it is my belief that at times the government dealers have been a major factor in solving such problems. I am certain that the Treasury Department would recall that without the dealers, more difficult problems would have arisen. Whereas the certificate market is not recognized by any one as a particularly lucrative market to dealers and whereas I have known of more than one instance in which the dealers have lent support to the obvious desires of the Treasury Department and the Federal Reserve Banks irrespective of whether it was profitable to them or not, the situation must be faced as a general principle covering a long period of time that it is not human nature to continue to undertake any operation as a private individual, with private funds, that may continue to be unprofitable. To meet special emergency conditions without profit or with a loss would be expected to be continued by dealers for the good of all.

It has been held by some that with the rediscount rate at 1% a loaning institution might well carry such securities as certificates at a rate of ¾s. This seems to be about to become a rate for the immediate future at least. It has also been held by some that if such short-term obligations have to be carried by dealers as part of their normal market functions in increased amounts that banks will continue the rate of ¾% even though they are rediscounting or may be required to rediscount with the Federal Reserve Bank. In other words, banks will recognize the principle of a penalty for rediscounting and will continue to loan at a ¾ rate and pay 1% to obtain the money.

I do not say that this may not become a principle but I can say that in some institutions today it is not a principle and will not become one unless present policies, as I understand them in some cases, are altered.

The question involved in this discussion is the principle as to whether it is advisable to place the probable carrying costs of certificates at a point above the income return thereon at a time when the government dealers' market may be most needed as a support in any selling movement and when rediscounting may be general by banks. It is also pointed out that when the necessity arises for the government dealers' market to absorb a large quantity of certificates to soften an increased supply offered, it is unlikely that that will be a time when such dealers could offset a carrying loss with prospects of market profits.

In presenting this picture I am merely pointing to a situation which I think requires thought and careful study. Is it advisable to face the possibility of the Federal Reserve Banks remaining substantially the sole market for certificates in a time of difficult market situations, thereby placing them in a position where their judgment as to the advisability of putting money into the market through open market purchases will be largely controlled by the absolute necessity of making such open market purchases in the absence of any other market?

The solutions to this problem could be various. Some are obvious. One might be to apply the system of repurchase agreements to certificates as once freely accorded to dealers on bankers' acceptances, the rate on such agreements to be below, if necessary, the rediscount rate, the rate to be a no-profit rate and the privilege to be granted only after exhausting opportunities to borrow at a carrying rate.

In passing I invite your attention to the necessity for the Treasury Department avoiding the pre-war situation by permitting "right values" to distort the short-term rates to the extent of creating zero yields and less. The Treasury should at once disabuse the public of the belief, naturally assumed through precedent, that the owner of a maturing obligation has any right whatever to any preference in subscribing to a refunding issue. This proposal does not suggest the complete discontinuance of preferential rights to holders of maturing obligations. It suggests the placing of the sole control of whether there be any rights accorded on any issue within the Treasury Department. The effect of such an arbitrary control would be to eliminate all or nearly all right values because of the then complete uncertainty as to whether any or to what extent any rights would be accorded in each particular case.

The Foreign Problem

Another problem yet to be faced, which may result in being one of our great problems, is the foreign problem.

This country has recognized the dire straits in which a great part of Europe finds itself from the standpoint of lack of food. We have recognized and heartily sympathize with the conditions confronting most European countries as a result of physical destruction and ensuing financial chaos. The problem of Europe is our problem also and we are recognizing that fact. Business being very generally unable to obtain a first-hand view of the situation because of the present difficulties of feeding, housing and transporting visitors to Europe, it becomes more and more apparent that we are considering Europe as being in a static condition with little if any change since active hostilities ended. From information which is still meager, it appears that we may be exaggerating the situation in some parts of Europe and that we may not be keeping up with the times. By this I do not mean that the problem is substantially less; I rather mean that the problem comes closer to the point of possible action on our part, aside from any loans by our government.

For example, one major west coast port on the continent of Europe is, we find, very generally considered by people in this country to be practically out of business because it was substantially wrecked during the war. Actually, this port received almost no damage and is today capable of full operation. As another example it is found that most people consider that the financial losses in Europe have practically eliminated the possibility of obtaining local capital for rehabilitation of local industry. Whereas financial losses were obviously great, it again is not true that there is not a very sizable amount of local capital available in many European countries today. It would seem that in some cases we place the emphasis too strongly on lack of capital and too little on the ability to employ it productively because of lack of raw materials, foreign exchange limitations, shipping shortages and other allied conditions.

Whereas I recognize that what I am now saying could probably be said with much more effect at some later date, it appears to me that now is the time to bring certain matters to the fore in order that by discussing them we may be better prepared to face them and, I might add, take advantage of them.

I do not believe in a loan or a grant which directly or indirectly will be used for the purpose of rebuilding or building an industry in a foreign country unless the industry can be expected to be efficient. I, however, believe in the necessity of starting industrial production in many European countries as soon as possible, and I believe in the necessity for monetary stabilization to the fullest extent possible through the UN organization or by any other means.

It seems to be a fact that industrial executives in this country, while concerned with sufficient production to meet local demands today, have in the back of their minds for tomorrow the foreign sales on which they expect to count because of the general shortage of manufactured goods in European countries. There seems to be much less general discussion on the subject of America buying manufactured goods from abroad. Without our purchasing or spending abroad, with what funds can foreign nationals buy our goods even at dump prices?

Producing Prosperity Abroad Will Help Us

There is only one way by which we can expand our foreign trade in manufactured articles and that is to produce or help to produce a prosperous condition in such countries. Prosperity comes from profitable productive enterprise. In spite of what has been said with regard to the possible supply of local capital in some European countries, it still appears evident that in order to produce effectively, efficiently and in time most European countries require greater skill in management, greater skill in mass product'on more modern machinery embodying progressive ideas in construction than can be supplied and more captial than can be forthcoming locally to accomplish all these results.

Recognizing the futility of urging American business to establish subsidiary organizations today in Europe, it nevertheless appears well-nigh essential that at some time this be undertaken to a far greater extent than ever has been done by American industrial concerns, which may well be sooner than is now generally anticipated.

It would appear that American industry must give earnest consideration to possibly a minority ownership in a new subsidiary or existing corporation established as may seem wise in some European country, the majority ownership to be in the hands of the nationals of that country. It would appear that without the skill of American industry and without such investment as American industry can now provide, the lag in the prosperity growth of many European countries will be such that American industry will be faced with the greatest disappointment when the time comes that foreign sales may be of much more importance than they are today in their own future plans.

When England was faced with the problem of its future financial existence, which was dependent upon the profit to be made by processing raw materials and providing services, Disraeli who was then Prime Minister was reported to have stated to Queen Victoria that England's future rested upon the question of whether the rest of the world could or could not be made prosperous. From then on England's investments and her foreign British-owned enterprises were a major factor in producing the prosperity throughout the world which for years in turn made England prosperous. Private capital, rather than government capital, went into these undertakings.

The question of the ability of an American investor in a foreign enterprise to produce sufficient foreign exchange to convert the profits of that enterprise into American dollars, or to provide the return of invested capital into dollars, is a problem but is not to be answered by trying to determine how much foreign exchange a given enterprise will produce in which American skill and capital has been invested. The question rather is, how much foreign exchange in total will be produced by an individual country if it has sufficient and efficient industries capable of competing in world as well as local markets, and of breeding thereby local prosperity which multiplies the chances of creating foreign balances and hence foreign purchasing power.

If American industry has a hand in the production of and therefore in the profits of efficient European industrial concerns it does tend to ease the burden of admitting foreign manufactured goods into our own country even in competition with our own production. No matter what the burden to create foreign trade and to help to have our credit already extended repaid, we must face it and carry it or take the consequences.

Whereas it is recognized that what has been said is not an easy undertaking and without much trouble hundreds of objections can be raised against such an idea, it is well to look at the alternative before a flat rejection.

It is not believed that it is too pessimistic a view to take of the alternative to say that we will very shortly be faced with the necessity of recognizing that what we may have loaned or granted to European countries has been insufficient to produce prosperity or stabilization — a fact which will not, rightly or wrongly, have made us popular abroad — and we must face a greater unpopularity when we try to collect what may have been loaned in the face of the then practical impossibility of the debtor nations meeting their obligations. We will be faced with the necessity to a greater extent than ever before of relying almost completely upon the home consumption of our manufactured goods. We may then well expect to find controls, quotas and other barriers erected against those who would undertake foreign sales. We may expect to find the world in so chaotic a state that the American enterprise system may well become by its very isolation increasingly difficult to maintain.

There have been some notable examples of subsidiary organizations being established in such parts of the world beyond our shores as stabilized conditions seem to warrant to-day. It may be that American industry may have to anticipate stabilized conditions rather than wait for them in some instances and it may be found that to anticipate is a lesser risk.

I conclude by saying that I am not trying to present, in this part of my subject, merely some personal ideas picked out of thin air. I am presenting to you ideas gathered from those in authority in several foreign countries in some instances, from our own Government officials and our own business men in foreign trade in other instances. I might add I am presenting nothing new. Yet I am, I believe, presenting something we may not attempt until it is too late to attempt it.

Price Control—New Administrative Procedures

(Continued from page 2508)
made many times, but it is often met by the rejoinder, "That may be true for the top level people, but the ones down the line want to make over the American economy and perpetuate their own soft jobs." In the face of our increasing difficulties in keeping able people in the agency *at all levels*—not just the top—that charge is to me a pretty grim joke.

I can assure you that I have not detected the tiniest whisper anywhere in OPA about making price control permanent, and there are hundreds — yes, thousands — of high caliber people who are staying on only because their associates beg them to help finish the job.

Personnel problems are not very exciting. But they may well be even closer to the core of our problem than administrative procedures—or even pricing policies.

Inflationary Fires to Be Brought Under Control

Somehow we've got to keep the lid on prices until the inflationary fires the war ignited under our economic boiler are brought under reasonable control. None of us has to be told that the economic and social cost of letting that lid blow through the roof is terrific.

Your own Director of Economic Research, Dr. Emerson Schmidt, has ably testified that those fires are not yet under reasonable control. Yet he recommended to the Senate Banking and Currency Committee that the lid be removed—four months after the present Act expires. You gentlemen know that from a practical point of view, controls slated to end in October could not be enforced in August. The economists, stenographers, lawyers, business specialists and clerks to do the job could not be kept. The chiselers could not be brought to justice and the honest folks could not comply.

If we were good accountants—free from emotion and prejudice, we'd run a trial balance between the cost of letting the lid blow in August and the cost of holding it until the fires are under control.

I don't need to itemize the economic and social costs of uncontrolled inflation. The total is staggering.

What are the costs of keeping controls until the danger is over:

First, there is the danger that price controls may impede production and thus prolong the inflationary situation.

Second, there are the irritations and delays inevitable in any operation as huge as OPA.

Third, there is the possibility that OPA may seek to perpetuate itself indefinitely.

Production Not Impeded

Let's take the first point. I think that almost all responsible authorities are agreed that price control is not significantly holding down the general level of production. Certainly the official indexes which have been widely accepted by businessmen as guides to their own decisions show that total production is at record peacetime peaks. Your own Dr. Schmidt emphasized to the Senate Committee that trying to correct shortages in one commodity after another would divert men and machines from things now produced and create shortages elsewhere.

The real problem is to make necessary price adjustments with sufficient speed to avoid hardship, and with sufficient precision to assist business and the Government supply agencies to direct resources into the most essential lines.

Unquestionably, there have been many instances under the rapidly changing conditions since V-J Day where price adjustments have been slow or have not been perfectly suited to requirements. This is a cost of continuing price controls. But it is an extremely small cost compared with that of uncontrolled inflation. It can be kept to a minimum by sound price policies and quick administrative procedures.

Secondly, there is irritation and red tape involved in price control even when controls do not create hardship or deter production. No one likes to work under a sense of restraint—particularly when it is unfamiliar restraint. This is another cost of continued price control. But again, this cost is insignificant compared with the 30, 40 or 50% average price increase and the economic collapse which would be precipitated by the premature burial of price control. Slight as this cost may be, however, it can be kept to a minimum by quick and simple pricing procedures.

OPA Not to Continue Indefinitely

Third, there is little question but that many businessmen outside the OPA are genuinely worried lest OPA seek to prolong itself indefinitely. I wish I could get some of these businessmen to come and work with us. We need their help. But I am certain that they would soon agree with everyone else in the OPA that the working conditions are lousy. Long hours, constant strain and the daily drumfire of criticism and ridicule practically guarantee the impermanence of the agency. If sound policies are to be administered promptly, it takes good people—even under the best of pricing procedures. The real danger is not that OPA will endure too long, but that its good people can't be kept together long enough to finish the job.

Add these three costs together: the cost of occasional hardship or impediment to production; the cost of irritation and red tape to some businessmen; and the risk that the OPA will seek to continue itself indefinitely. The total is infinitesimal compared with the tragic cost of uncontrolled inflation.

But even these relatively minor costs can be reduced to a minimum. It is important that the Government do everything possible, not only to maintain sound pricing policies, but to streamline pricing procedures, retain good public servants and make provision for orderly decontrol as rapidly as reasonably safe.

OPA's Pricing Standards

I assume that you are all familiar with the OPA's major pricing standards: First, the industry earnings standard which, except in cases of abnormally low output, assures to an industry earnings at least as high as those it earned in prewar years. Second, the transition product standard which, with a few minor exceptions, assures to a multiple product industry with good overall earnings returns on each major manufactured product at least equal to total cost. And third, the production incentive standard which is used to encourage the output of especially essential goods.

The record shows that these standards have not been dead letters on the OPA's books. Between July 1, 1945, and April 1, 1946, OPA granted 528 *industry-wide* price increases. Of this total, 153 price increases were made to meet minimum legal standards; 266 were granted to aid production and 109 were designed to correct particular inequities or assure more effective and less burdensome controls.

Those are *industry-wide* increases—528 in a period of nine months. That's an average of 59 a month. I find it hard to reconcile that record with the broadside charges that the agency has been, or is, rigid, inflexible and unrealistic.

You may be less familiar with the fact that since V-J Day, provision for *individual* adjustments has been extended until now almost every manufacturer is permitted to charge whatever price is necessary to keep him at least out of the red. Under individual adjustment procedures, 12,000 individual applications have been handled since V-J Day. Of this total 48% were granted in full; 20% were granted in part, and 32% were withdrawn or dismissed. The record, again, does not jibe with the charge of rigidity, inflexibility and unrealism.

But running the OPA is an enormous management job. With 30,000 employees handling thousands of commodities and dealing with millions of people, close attention must be paid to the detailed procedures on which we have to depend if the job is to be done honestly, quickly and well.

A Huge Management Task

Let me sketch briefly some of the recent developments in carrying out this huge management task.

When the new wage-price policy was adopted in mid-February, OPA had to move fast to meet the increased volume of cases. Operations were streamlined in many ways. The time required to gather necessary data was sharply cut. As a result, the necessary price adjustments for ten major branches of the steel industry were completed within a month after the settlement of the steel-wage cases.

Since January, 1946, the number of applications for individual price adjustments has increased—as a result of the new wage-price policy and other developments—by more than 30%. Yet the backlog of cases which first increased only slightly now can be held or even reduced—provided there are no major changes in pricing policies.

This efficiency of operation has not been an accident. Since V-J Day, the number of pricing and adjustment responsibilities delegated to field offices has steadily increased until they are now handling between 80% and 90% of all individual adjustment applications.

Delegation of authority to the field offices, however, does not automatically solve all problems. The field offices have always been overburdened. Now they are loaded beyond any normal breaking point. Before authority can be delegated to the field, therefore, two things have to be considered: first, a comparison must be made between the backlog in the national office and the backlog in the field; and second, the possibility must be studied of developing simplified adjustment procedures which will cut the total workload, both in the national office and in the field.

If the decision is that the relatively high backlog in the national office and the impossibility of developing simpler procedures, makes delegation to the field necessary, two further problems arise. Either the field staff has to be increased or a priority system has to be set up under which the most urgent field cases are handled first. Since the total staff, both in the national and field offices, is strictly limited by available funds, priority systems have been developed both for the national and field offices.

The national office gives top priority to industry-wide actions under which hundreds, or thousands, of individual cases are covered at once.

The field offices are notified of industry-wide actions. Except when hardship or shortage is immediate, they are instructed not to process applications in cases which will be covered by industry-wide action within 30 days.

Beyond this, the field offices are provided with regular priority lists which indicate the commodities and programs requiring most urgent attention. And in addition, the highest priorities are assigned to those which involve severe hardship, threatened supply shortages, or reduced production of goods in low-price lines. Finally, top priority has been assigned to cases in which the applicant may not produce or sell until he receives an order from the OPA.

As a management device for cutting down backlogs, a system has recently been put into operation requiring each field office to settle all cases over 30 days old and to report to the national office all cases lingering beyond this period. As a result of these reports, the national office can center its attention on reducing significant backlogs by clarifying the regulation, improving the field instruction or by simplifying the procedure. The results of this policy thus far have been excellent.

To enable field staffs to move quickly and efficiently into new programs, frequent meetings are held in the field offices by top members of the national office staff and representatives of related Federal agencies, such as the Wage Stabilization Board.

But the increased workload could not be handlded by the staff either in the national or in the field offices without constantly improved tools.

Standardized forms for economic briefs, legal orders and opinions are constantly being developed. Increased use of form letters is being made where they can do the job. Increased clarity in spelling out the minimum information needed from applicants cuts down the time and correspondence required to act on an adjustment. Periodic surveys of field office experience result in improved instructions and cut down the data requirements. And standardized, uniform adjustment provisions—cutting across a mass of regulations—speed up actions just as standardized nuts and bolts on automobiles cut repair time on jalopies.

Automatic Pricing and Decontrols

But when everything has been done to improve the tools and speed the procedures, the net effect of a system of priorities is bound to be that some classes of cases are pushed down toward the bottom of the list. For these cases, either of two policies is possible: automatic pricing, or decontrol.

Automatic pricing procedures under which businesses apply pricing formulas to their own cost data obviously reduce the OPA's workload and speed up new-firm pricing.

In some fields where it has been attempted, the results have been so highly inflationary that the scope of the automatic pricing order had to be curtailed. However, it has become an established OPA policy to make the requirements for small firms less rigorous and the processing of applications much simpler.

An automatic, individual adjustment provision has been prepared for use in certain small industries where industry-wide action is difficult. Thus far, it has not been necessary to issue this order, but it is held in readiness. Although its inflationary risks should be avoided, it is preferable to delay. This automatic adjustment provision is ready, however, in case of need.

Since the scope of automatic pricing is limited, the effect of establishing priority schedules is to subject low priority cases to delay. The result of delay in these cases might soon amount to decontrol by default.

For this reason, among others even more important, an *orderly* program of decontrol has long since been established. There are two principal standards in this program:

First, in the case of commodities which are significant in the cost-of-living or the cost of doing business, controls are suspended when it appears that supply and demand are in such relation that prices will not rise above the ceiling. After suspension, if prices have not risen during a reasonable period, the commodity is exempted from price control.

It is important to note that although the production of most important commodities—except in the reconversion field—is running well above 1941 levels, demand has increased so much since then as a result of much higher incomes and accumulated wartime backlogs, that to remove controls on most of these products now would almost certainly result in sharp and cumulative increases in prices and business costs. It's not difficult to imagine what would happen to the price of most farm products, coal, house furnishings, wool and rayon fabrics, bus and truck tires and most of the basic industrial materials if controls on these products were removed now. And yet, during the twelve months ending March 31, 1946, the production of all of these commodities equalled or exceeded their production in the fiscal year 1940-41.

Price Controls Removed

Wherever possible, however, OPA has removed controls from important commodities, including white potatoes, domestic wines, ingot and pig aluminum, ingot magnesium, and aircraft. Only in the case of citrus fruit has it been necessary to restore controls because of a sharp increase in prices.

Although it has not been possible thus far to undertake the decontrol of many important commodities, by the latter part of 1946 and increasingly after the turn of the year, I think it likely that ceilings can be lifted from more and more commodities without significant price increases.

This will be possible as shortages disappear, as operating conditions and costs settle down, and as the country recovers from its present case of inflation jitters. It will then be safe also to remove ceilings where prices will rise moderately, even though supply is large enough to be in substantial balance with demand. To lift ceilings in such cases in the present critical situation would be dangerous, to say the very least.

Decontrol of Unimportant Items

Of greater immediate importance, is the decontrol of relatively unimportant items. This takes place under the second of the two decontrol standards which I mentioned earlier. In the case of a commodity which is not important in the cost of doing business, OPA suspends or exempts even though the price may rise. Before this can be done, however, two conditions must be satisfied. First, it must be reasonably clear that decontrol will not result in diverting manpower, materials or equipment away from more essential production. Second, it must be clear that the risk to stabilization is small compared with the increased amount of time and effort the OPA staff will be able to devote to more important work.

As the manpower and materials situation eases up, the danger of diversion will decline and the importance of this precaution will diminish. Moreover, as the OPA's personnel problem becomes more acute and as low priority cases appear on the docket, it will become even more necessary to decontrol relatively unimportant commodities.

For several months, a top official with staff assistance in the Price Department has been assigned to decontrol functions. He is regularly advised by the field offices and other branches of the national office. This committee constantly scrutinizes additional decontrol prospects. Among the factors it considers, is the backlog of cases on the price action docket of both the national and the field offices.

As a result, a great many minor decontrol actions—and several of a relatively sweeping character—have been taken. The list is long and OPA is adding to it every week. The main commodity fields affected include a long list of heavy machinery and equipment; a wide variety of professional, scientific and industrial instruments; all musical instruments including pianos; most jewelery; most sporting goods; most toys; all firearms and ammunition; certain narrow fabrics; incandescent light bulbs, and a great number of trivial or luxury food or consumer durable goods items.

The actual value of commodities decontrolled under these two standards is estimated to be at least ten billion dollars.

This, however, is less significant than the fact that thousands upon thousands of commodities have been cleared from the OPA docket. Corresponding thousands of businessmen have been freed from the irritations of controls—without serious danger to stabilization.

There is, of course, some risk in this policy. But it is imperative that we concentrate our limited manpower in the areas most significant to stabilization and, at the same time, provide additional evidence of the Government's determination to get out of price control as soon as it's reasonable to do so.

These pricing and decontrol policies and procedures, I submit, make sense. But they can *not* be carried out if sweeping changes in pricing or decontrol standards—such as those voted by the House of Representatives—are imposed on OPA. Nor can they be continued past early summer if price control is to be swung from the gibbet in October.

Risks of Destroying Effective Controls

It is, I believe, these policies and procedures which, while achieving stabilzation, will keep the costs of price control at an absolute minimum. The alternative costs of destroying effective price control before our job is done are potentially so tragic that I don't believe any single businessman here would be willing to assume personal, public responsibility for taking the risk. Indeed all the recent polls of business opinion show that a majority of businessmen are unwilling to risk their own security and that of our workers, our farmers, our veterans and our old folks to escape the minor hardships and passing irritations of the stabilization program.

I do not believe that the great majority of businessmen, when presented with the facts about the dangers we face, would vote to trade their country's birthright for a mess of pottage. I am convinced that the average businessman can see beyond the temporary restraints of the present to the great and expanding America which the maintenance of stability now will assure for our future.

What Lies Ahead in Interest Rates?

(Continued from page 2513)

ular job done. It was the purpose and nature of the investment, not the requirements of the investor that henceforth were to set the terms of the loan. If the job required a low rate of interest, then that was what it should get.

This attitude will be clarified by further quotation from Mr. Berle's testimony: "The noncommercial business, like a hospital or low cost housing, or the semi-commercial business, like middle class housing, cannot pay the same kind of rate of interest which a commercial enterprise pays. . . . Our first concern ought to be to work out a banking system which can quote a rate of interest which will take the business. If that rate happens to be a nominal one for something which isn't going to make any profit, then that is the rate to quote. If it happens to be, let us say, a 1% or 1½% or 2% rate for middle-class or lower-middle class housing which is not being built by anybody today, then quote that rate. If it happens to be a commercial enterprise, making the standard commercial rate, then quote that rate."

This kind of interest rate manipulation is apart from (although not entirely unrelated to) methods of regulating the rate through the means that are adopted for managing the public debt.

The federal government has adopted three main avenues for carrying out the new interest rate policy to which I refer.

One approach is to form federally capitalized credit institutions such as the RFC, the HOLC, and certain of the farm credit institutions, which, not being directly dependent on the ordinary functioning of the capital market, have considerable freedom is setting their rates.

As a result of this type of federal operation, a great part of the total of farm loans, a very sizable slice of urban residential loans, and a not inconsiderable amount of loans on industrial and commercial property have been isolated from any serious impact from so-called market rates of interest.

The second approach is more ingenious. Instead of operating directly, it works by indirection. It consists in bargaining with private lending institutions for a stated rate of interest in return for assuming a part of the lender's risk or cost of doing business. The outstanding example of this method is the FHA.

It may be said that the originators of the mortgage insurance principle were probably not aware of the potentialities of the device they had created. It appeared to them pretty thoroughly as a business proposiion. Its main objective was to restore and expand the flow of funds into residential mortgages. This it sought to accomplish by a system of mutual insurance which spread the risk of all participants in the plan. It did not intend to relieve lenders of any of their major responsibilities. And it was certainly not primarily looked upon as a method of interest rate control. To be sure it was expected that rates might go down—but only to the extent that the insurance itself proved effective and other market forces were at work.

In evidence of this the original FHA rate, including the then allowed service charges, was definitely above the rate set by the government for HOLC mortgages, and it was in as close conformity to a going market rate as could at the time be determined. In the course of FHA history today, the rate was lowered only after the level of premiums paid in the secondary mortgage market indicated that the true market rate had already declined.

During the last decade, however, there has been increasing insistence that the FHA rate, on the basis of social needs, *ought* to be lower. A recent mayor of this city has been especially articulate on the subject. I believe 2% is the rate he would establish. And he has strong support in labor and welfare circles. Real estate and builder groups have also been ready adherents of the low interest school, though their motivation is probably different.

The Wagner-Ellender-Taft Bill contains the first, and still fairly feeble, effort to turn FHA insurance into a device for setting rates in accordance with social objectives as determined by the government, rather than in accordance with the mechanisms of the market place.

The bill, in its new FHA provisions, sets up a variety of risk patterns based on amounts of down-payment and length of the amortization period and establishes a number of interest rates. The lowest rates go with what would normally be considered the highest risk patterns. This contradiction to the normal market adjustment of rate to risk is assumed to be compensated for by varying the degree to which the lender is freed from the risk and responsibility involved in his participation in the program.

I say the effort, as embodied in the bill, is feeble because, as a result of compromise, the lowest rate prescribed in reference to any of the home mortgage patterns is 4% and in respect to any of the several multifamily mortgage plans 3½%. Under today's conditions, and considering the amount of risk compensation provided, these rates may not be strikingly submarket in character.

But I can positively say that the compromise was grudgingly made, that the proponents of the new principle definitely feel that they have been done in, and that at the first opportunity open to them, they will endeavor to see that the rates go to the levels at which they think they ought to be. If further compensations to the institutions are required for this purpose they may be offered. But more likely, seeing that the institutions will have become mere agents for the government, they are just as likely to turn to direct governmental lending, where the interest rate problem can presumably be handled more freely. This is already done in the Wagner-Ellender-Taft Bill in the section dealing with farm housing.

The third approach to interest rate control is to combine government lending with subsidy so as to produce a rate lower than that at which government itself may borrow or, in fact, a zero or negative interest rate. This is the principle involved in our public housing operations and it is further applied in the urban redevelopment and farm housing sections of the Wagner-Ellender-Taft Bill. It is considered by its advocates to have great potentialities for the public good.

As to the future, I can see nothing ahead but a continuous effort to promote the low interest rate policies that I have outlined so long as the current political philosophy remains in the ascendant, and until contrary forces, much stronger than any that now appear to exist, come into play. At the present time the government is determined, by one means or another, to maintain a low rate or mortgage interest as the principal method of carrying out its housing and planning objectives. The policy will change only when it comes into serious conflict with objectives considered to be equally important.

Mutual Funds

Quarterly Reports

The **Wellington Fund** report for the 3 months ended March 31, 1946 showed increase in net assets to $30,974,661, a new high and more than $4,000,000 above the year-end figure. Asset value per share increased during the 3-month period from $20.09 to $20.81.

Investments in equities, including bonds and preferreds purchased primarily for appreciation, amounted to 53.3% of the portfolio on March 31 as compared with approximately 60% at the beginning of the year. Principal reductions were in railroad securities, public utility holdings, bank stocks and non-ferrous metals. Additions included principally stocks of chemical, aircraft manufacturing and utility companies.

Incorporated Investors

Total net assets of **Incorporated Investors** increased from $83,530,669 at the end of 1945 to $90,810,109 at the end of the first quarter. The net asset value per share increased from $30.44 to $31.69.

The largest single investment in any one industry at the end of the quarter was 21% in the railroad industry. In his letter to shareholders, William A. Parker, President, calls attention to the fact that large purchases of railroad common stocks were made in the first quarter of 1944. The unrealized appreciation in these securities currently amounts to about $7,000,000—which represents an advance of about 58% over their cost.

Writes Mr. Parker. "The management continues to feel confident of the profit possibilities in carefully selected rails because, despite temporary conditions, it seems a reasonable assumption that rate increases will be granted sufficient to produce earnings that will more than justify present prices, particularly in view of the strong financial condition and improved operating efficiency of the railroads."

Keystone Custodian Funds

Combined net assets of the ten **Keystone Funds** amounted to more than $175,000,000 on March 31, 1946, a new high total which compares with $160,000,000 at the close of 1945.

Semi-annual reports of Keystone High Return Bond Fund "B4" and the High Grade Common Stock Fund "S1" reveal that total net assets of the former advanced from $19,818,875 to $22,454,490 during the six months ended March 31. In the same period total net assets of the "S1" fund rose from $2,605,229 to $3,198,024.

George Putnam Fund

The **Putnam Fund** increased its net assets during the first quarter from $16,161,000 to $18,151,000. Net asset value per share rose from $16.84 to $17.43.

In their report, the Trustees include the following timely comments under the heading, "What about the Investor's 'Take-Home' Pay?":

"Every investor is acutely aware of the steady shrinkage in the earning power of his accumulated savings. At a time when the cost of living is advancing steadily, it takes roughly $2,400 today to provide the same dollar income that $1,000 did a dozen years ago.

"In substantial part, the fall of interest rates in recent years has been due to a deliberate Government policy of cheapening money through its control over the banking system. Such a policy places an extra tax on the thrifty because it is only the thrifty who put aside a part of the results of their present labor for some future use.

"It is high time that the 'managers' in Washington gave some attention to the **investor's** 'take-home' pay. We may be old-fashioned, but we still believe that thrift and individual financial independence are sounder foundations for prosperity than spending and increased debt. In the long run, policies which tend to discourage thrift and encourage speculation cannot build a better and sounder future."

Union Trusteed Funds

Combined net assets of the five **Union Trusteed Funds** totaled $9,895,253 on March 31 as against $8,213,253 six months earlier. Comparative asset values of the various funds are as follows:

	—Asset Value—	
	9-30-45	3-31-46
UBA	$24.12	$24.96
UBB	21.01	21.86
UBC	8.81	9.68
UPS	23.49	26.01
UCS	9.03	11.35

Oil Stocks Recommended

Hugh W. Long & Co. has followed up its recommendation of oil stocks which appeared in the April 1 issue of the New York "Letter" with a folder on the **Oil Industry Series of New York Stocks.** The folder states that "Oil Industry facts are changing for the better." Three major reasons are given for this change:

1. Auto production has been resumed.
2. Price ceilings on petroleum products are to be removed.
3. After two years of poor action oil stocks have begun to do better.

The folder contains statistics to prove that oil securities values are higher while their prices are not.

Diversification Dramatized

Distributors Group in a current Investment News compares the decline which took place in Curtiss-Wright securities when the dividend on the class A stock was passed, with the market action of **Group Securities' Aviation Shares.** Between March 1 and March 19 the Curtiss-Wright A stock showed a net decline of 16.5%. In the same period Aviation Shares—which was fully invested in 25 different aviation stocks including Curtiss-Wright A—actually advanced in net asset value by 1.99%!

Victory For "Prudent Man Rule"

Selected Investments Co.'s current Bulletin on **Selected American Shares** contains an interesting report on the trust established by Lambert Tree, famous Chicago lawyer of earlier days. The trustees, Sir Arthur Tree and the Continental Illinois Bank & Trust Co., filed suit to broaden their investment powers to permit discretion in the use of common stocks. Although the will specifically denied these powers, the court granted the petition.

"It will be for the interest of all the beneficiaries under the will . . . and their successors in trust, shall have full authority to invest funds . . . in bonds, debentures, and other corporate obligations, and in preferred and common stocks of other corporations," ruled the court.

Mutual Fund Literature

Distributors Group—Reprint of Barrons Quarterly Investment Company Gauge with comparative figures on all classes of Group Securities . . . National Securities & Research Corp. — Revised portfolio folder on National Low-Priced Common Stocks . . . Calvin Bullock—Revised Prospectus on Dividend Shares dated April 29, 1949 . . . Keystone Co.—Current issue of Keynotes; Revised portfolio folders on all Keystone Funds. . . .

Dividends

New York Stocks, Inc.—The following dividends payable May 25, 1946 to stockholders of record May 4:

Series—	Per Share
Agricultural	.07
Alcohol and distilling	.10
Automobile	.04
Aviation	.12
Bank stock	.08
Building Supply	.02
Business equipment	.09
Chemical	.03
Electrical equipment	.07
Food	.10
Government bonds	.09
Insurance stock	.09
Machinery	.06
Merchandising	.07
Metals	.05
Oil	.08
Public utility	.05
Railroad	.07
Railroad equipment	.08
Steel	.04
Tobacco	.10
Diversified investment fund	*.20
Diversified speculative shares	.04

*Includes .05 from securities profits.

Taxes—What Should Be Done?

(Continued from page 2506)

But I ask you in all sincerity—Should anyone take credit, by using confiscatory wartime tax rates, for balancing a peacetime budget, which should soon be envisaged?

The Citizens National Committee, Inc. of Washington, D. C. has prepared Publication No. 2589 under the title of "The Federal Budget Can Be Balanced Now." This publication points out that the proposed 1947 Federal budget calls for expenditures of $35,125,000,000. In the opinion of this Committee, items to the amount of $11,326,000,000 are open to challenge. A substantial reduction in these items would permit the changes in the tax laws that should be made, as well as provide for some debt retirement. In determining revenue needs, the amount of the debt retirement which may be scheduled must be taken into consideration.

Bearing upon this situation, it should be noted that recent official releases indicate that surplus property costing some $32 billion will be available for disposal by June 30, 1947: $2 billion of this property has been disposed of by the end of February last, with returns from sales being about 45% of the original cost. Of the $30 billion remaining, some $7 to $10 billion will be disposable largely as scrap. Some $19 billion of goods and real property can be disposed of in the remaining months of 1946, if an accelerated disposal policy is adopted as is being urged by informed persons. Even on a basis of 33⅓¢ on a dollar of cost, instead of the 45¢ thus far realized, some $6 billion of receipts could and should be speedily obtained, if the Government is not to overstay its market and if it is to place these goods and property in the hands of the citizens when they are in demand.

(2) An improvement of Congressional and executive procedures to control expenditures and the amount of tax to be raised should be adopted.

As I understand it, the method by which the Appropriations Committee functions is to divide itself into sub-committees. Each sub-committee examines and determines the amount of appropriations for various subsections of the Government. They report back to the entire committee which very rarely makes any change in the recommendations of the subcommittee for the reason that the members of the committee feel they do not have enough information to make changes. The result of this is that the Appropriations Committee has no control of appropriations on an over-all basis. Action on the budget by the Congress itself is piecemeal, without any prior determination of a total limit.

In addition, we have the Ways and Means Committee in the House where tax legislation must originate. This Committee is entirely independent of the Appropriations or spending Committee. One remedy (and I do not suggest it as the only one or the correct one) would be to create some authority which would recommend both the total amount of expenditures and the total amount of taxes to be raised in any fiscal year, a Congressional procedure to fix these limits before appropriations and tax legislation are approached.

(3) Excess Profits Tax. Section 722 should be made workable.

The Joint Committee of Internal Revenue has for some time been engaged in investigation of this problem. Hearings were held, and Commissioner Nunan was given an opportunity to review the recommendations for changes in Section 722 that were presented at these hearings. On April 30, 1946, Commissioner Nunan appeared before the Joint Committee of Internal Revenue with his recommendations. I have not had an opportunity to read the testimony of Commissioner Nunan given on April 30, 1946, but the Chamber Committee on Federal Finance is giving careful attention to this subject.

(4) Corporate Rates—A combined rate of 35% or less for 1947, 30% or less for 1948; and 25% maximum for 1949, with the abandonment of the surtax device should be adopted.

As you know, the corporate rate for corporations with net incomes of less than $50,000 is a graduated rate with a notch provision, and the combined normal and surtax rate for corporations with net incomes of over $50,000 was reduced on January 1, 1946, to 38%. It is believed that if expenditures are properly reduced, a further reduction to 35% is possible for 1947, to 30% for 1948, with an ultimate goal or maximum rate for 1949 of 25%. The surtax device has no place in a corporate rate.

(5) The discrimination in the taxing of corporate earnings or the so-called double tax on corporate earnings, if not eliminated, should be alleviated.

Under the method that has been in effect since 1936 corporations pay the full corporate rate on their earnings before any distribution of dividends. The individual stockholder is again taxed on the dividends received from the corporation at the full rates. Prior to 1936 dividends received by individuals and corporations were exempt from the normal tax.

Many methods of dealing with this subject are under review by the Chamber's Committee on Federal Finance, such as the so-called British system, the exemption of the dividends from normal tax, the total tax computed to be credited with an amount equal to the normal and starting surtax rate. This subject is of the highest importance and a suitable arrangement should be determined at an early date.

(6) Net Losses—Retain through 1946 and 1947 the present net operating loss provision, with a substitute for the year 1948 and subsequent years of a 7-year carry-forward.

As you know, under the existing law net operating losses may be carried back for two years or forward for two years. It is felt that this two year carry-back provision should be retained for at least two years after V-J Day, but because of its administrative difficulties a carry-forward should be substituted, and the carry-forward period should be equal to seven years. This net operating loss provision would be of great assistance to new and existing businesses that have sustained, or will sustain, net operating losses.

(7) Tax on Intercorporate Dividends—The present method of taxing 15% of the dividends received by a corporation from another corporation at full rates should be repealed.

(8) Consolidated Returns — The 2% penalty tax imposed upon corporations filing consolidated returns should be repealed effective for the tax year 1947.

Reasonable regulations, conformed to the intent of Congress, in the taxation of a corporation filing consolidated returns should be adopted.

(9) Depreciation — Some method of providing more liberal treatment of depreciation by the taxpayer should be developed.

It has been suggested that the taxpayers be permitted to develop schedules suitable in their judgment to cover costs through depreciation within a reasonable period. Another suggestion is that the burden of proof as to the adequacy of depreciation be shifted from the taxpayer to the Department. This subject, in its many ramifications, is being studied by a sub-committee of the Chamber's Committee on Federal Finance.

(10) Capital Gains and Losses—The long term gain rate should be reduced to 20% for 1947, 15% for 1948, and 12½% for 1949. The present six month holding provision should be retained, and loss should be treated the same as gain. There is no excuse for taxing gains and limiting losses.

(11) Tax on Incomes of Individuals.

For a considerable length of time it has become increasingly evident that the working of the following processes may be fairly admitted:

(a) Taxation is being used as a means of redistributing the total income and property of the country.

(b) Inflation and inordinate Government spending are being accepted as handmaidens of tax realization.

(c) These processes, fostered designedly by some and unwittingly by others, are operating to liquidate a large number of our taxpayers. I believe that taxation still is a function to be exercised for the sole purpose of defraying the cost of government. But I regret to say that it has progressively developed into an instrument for extracting from Paul and giving to Peter.

That all of this is no figment of the imagination can be proved by observing the frustration and dismay of many taxpayers. Typical is the executive, the planner, the technician, the man with industrial and business know-how, who personally earns his income. Typical also is the creative independent business man who is carrying on his business in an individual capacity.

Effective January 1, 1946, in order to increase production and create full employment in business, Congress repealed the excess profits tax. This was a step in the right direction, but Congress failed to take into account that a large part of our production and employment are created and provided by individuals and partnerships who are still suffering under confiscatory war tax rates.

It is recommended that the withholding and present exemptions should be retained. If Congress is not going to write an over-all tax bill, a flat reduction of approximately 10% for 1947 should be enacted, with an early establishment of a ceiling of 50% to be followed by progressive reductions of combined normal and surtax, to a maximum of 50% effective at $500,000 net income. Some method of applying the averaging principle to incomes of individuals should be given serious consideration by the Congress.

(12) Miscellaneous and Excise Taxes.

Historically, Congress has relied upon excise taxes to produce a substantial part of its revenue requirements. In 1938 excise taxes produced 31% and in 1939, 30% of the total revenue.

The tax upon property transportation, and accompanying adjustment in parcel post rates, should be repealed at once.

The increase in certain excise taxes made in 1942 should be reduced to the prior level.

Nuisance taxes on certain commodities providing relatively little revenue should be repealed.

The payroll tax through 1948 should be kept at 1%.

(13) Estate and Gift Taxes.

This field of taxation should be surrendered to the states, but until this is accomplished a thorough overhauling of the estate and gift tax provisions should be made. There are numerous modifications of rates and technical provisions, including the restoration of the full 80% credit, that should be made in 1947.

The rule on contemplation of death and powers of appointment should be modified.

The proposal for integration and consolidation of gift and inheritance taxes should be rejected.

There are many administrative and technical amendments that should be made in our tax laws in order to make them work. One urgent need is for agreement upon the appropriate tax treatment to be given in recovery of foreign war losses of corporations and individuals.

When you take into consideration the fact that a budget of $20 to $22 billion annually is three times any prewar budget, you realize that the rates imposed upon incomes will be far in excess of anything that you enjoyed in the prewar period, but they can be reduced and must be reduced in the case of individuals substantially below the present confiscatory war tax rates.

I feel that Congress should be begin at once to overhaul our taxing statutes so that the rates for withholding could become effective as of January 1, 1947.

Much has been said recently about having Congress provide tax incentives. To my way of thinking, the best incentive is a reduction in the rates. The reduction of public expenditures and of the tax burden and the modernization of the tax structure will provide a stimulus to established and new businesses. This will be reflected in corporate and individual earnings, which under moderate taxes will produce adequate revenue.

Brereton, Rice & Co. Formed in Denver

(Special to THE FINANCIAL CHRONICLE)

DENVER, COLO. — Brereton, Rice & Company, Inc., has been formed with offices in the First National Bank Building, to continue the investment business of Charles J. Rice & Company. Officers are William H. Brereton, President; Charles J. Rice, Vice-President and Treasurer; and Richard L. Moore, Secretary. Mr. Brereton and Mr. Rice were both formerly partners in Charles J. Rice & Co.

William J. Lau Joins C. S. Ashmun Staff

MINNEAPOLIS, MINN. — William J. Lau, for more than 15 years in the investment business in Minneapolis and Chicago, has joined the investment banking firm of C. S. Ashmun Co., 1212 First National Bank Building. Mr. Lau, a graduate of the University of Minnesota, was formerly with Frank and Belden, Kalman and Company and the Foreman State Bank of Chicago.

Now Proprietorship

W. V. Gibara, formerly partner in W. V. Gibara & Co., is now doing business as an individual dealer from offices at 61 Broadway, New York City.

Securities Salesman's Corner

By JOHN DUTTON

When you sell securities that have been selected primarily for their "price appreciation" possibilities it is important that you clarify the potential risk involved. Many such situations are non-dividend payers. Others only pay irregularly, or in the case of bonds are on an income basis. Show the true facts, bring out all the salient points, and make certain that your customer understands his objective when he buys this type of security.

Another good method of handling "price appreciation" situations is to make your trades on an agency basis, or no mark-up at all when you put him in. Then arrange with your customer so he knows that you are going to charge him the entire commission when you take him out. You can make your charge commensurate with the service you rendered, just so long as your customer agrees to it and you disclose the amount you are charging. Isn't this a better way of handling speculative trades? The customer knows what he is doing, he knows that it is your brains that are working for him, he knows that he is paying no load on top of the very rock-bottom inside market price when he goes in. If he makes a good profit (because of your help and assistance) he should be more than happy to pay you a sizable commission for helping him achieve it.

People who never gambled before are doing it today. In fact, it is becoming more and more difficult to interest them in sound securities. You can find a hundred small speculators for every one that is interested in income and safety of principal. The larger investor, or those who have been security buyers for many years are different. They still stick to fundamentals. There are many firms that do a consistent business in high grade investment stocks, insurance stocks, and medium grade bonds. But their individual clients are not the new crop of stock buyers that are around today. That is why it is more important than ever to make every point as clear as possible, when you sell some speculative security to an amateur speculator. Otherwise you may have a tartar on your hands some day, if the market goes against him, or the stock you sold turns out to be a lemon. For that matter, you may have some trouble anyway, if things go against this type of individual, no matter how much you try and clarify the situation before he goes in.

Remember there are a lot of people who have been educated for years into believing that they can get something for nothing, or that the SEC will protect them (even against unforeseen economic reverses). Many of such are coming into the securities markets today —PICK AND CHOOSE YOUR CUSTOMERS WELL ESPECIALLY IF THY ARE SPECULATORS. Remember too, they all like to call themselves INVESTORS.

Coggeshall Nominated To Head N. Y. Bd. Club

James Coggeshall, Jr., of the First Boston Corporation, has been nominated for President of the Bond Club of New York for the coming year, to succeed Lee M. Limbert of Blyth & Co., Inc. The election will be held at the annual meeting of the Club, on June 4, at the St. George Hotel, Brooklyn.

T. Jerrold Bryce, of Clark, Dodge & Co. has been nominated for Vice-President, to succeed Mr. Coggeshall, who has occupied that position during the past year.

David L. Skinner of Harriman Ripley & Co., Incorporated, has been nominated for Secretary. David J. Lewis of Paine, Webber, Jackson & Curtis has been nominated for Treasurer.

Nominations for members of the Board of Governors to serve three years are Robert E. Broome of Guaranty Trust Company of N. Y.; F. Kenneth Stephenson of Goldman, Sachs & Co. and Joseph A. Thomas of Lehman Brothers.

Continuing Governors will be Adrian M. Massie of the New York Trust Co.; Charles L. Morse, Jr. of Hemphill, Noyes & Co.; Edward K. Van Horne of Stone & Webster Securities Corp.; Wright Duryea of Glore, Forgan & Co.; Frederick L. Moore of Kidder, Peabody & Co.; and Alfred Shriver of Morgan Stanley & Co.

The Nominating Committee consisted of Frederic H. Brandi, Chairman, George J. Gillies, Lloyd S. Gilmour, Charles L. Morse, Jr. and Wickliffe Shreve.

The Public Debt

(Continued from page 2503)

cision with regard to war financing cast a shadow before it concerning postwar handling of the debt. We realized this in the Treasury, and in fact we kept that thought constantly before us. At the outset it was decided that the various classes of investors should be sold securities which fitted their needs. We felt that this was best for the Treasury too because it meant more satisfied customers and therefore less turning around and other wasted effort. The major differences between the needs of the various investor classes can be expressed simply in two terms; type of security and period of maturity.

Varieties of Government Securities

We issued both marketable and nonmarketable securities. We offered savings bonds and notes and some securities restricted as to ownership. We varied our maturities from 90-day bills and one-year certificates to 27-year bonds.

It is important to see just how the public debt was increased since the nature of the securities is so significant from the point of view of postwar debt management. Let's look at the record. In the six calendar years, 1940 through 1945, the public debt increased by $229 billion. This was accomplished by selling more securities than this amount but there were some offsets because of redemptions and maturities. Altogether, we sold more than $350 billion of securities, of which $186 billion was in war loans and the E, F, and G savings bonds program. The remainder comprised other sales outside the war loans and special issues sold to Government trust funds.

More than half of the total increase of $229 billion consisted of securities which were not eligible to commercial banks, with minor exceptions. Thus, $54 billion of the increase in debt was in the form of savings bonds and savings notes, the largest part consisting of E bonds. Another $52 billion was in the form of bank-restricted Treasury bonds, and $16 billion consisted of special issues to Government trust funds. Except for one issue which becomes bank-eligible in the fall of this year, these bank-restricted bonds may not be transferred to bank ownership until many years elapse. In fact, the eligibility dates range from 1952 to 1962, other than the one issue which becomes eligible this year.

Adding together all of these issues not eligible to banks, we obtain $122 billion, or over half of the increase in debt during the six-year period.

It was careful planning on the part of the Treasury to issue so large a volume of securities not eligible to banks. More important, it was wise to issue these in forms that made them especially suitable to their holders. For one thing, this helps to avoid a repetition of the Liberty Loan experience after World War I, when frightened small holders of Liberty bonds rushed to unload their securities in order to avoid what they thought would be further price losses. You may remember that the price of Liberty bonds went as low as 82 in this frenzy of selling. Many small investors who really needed their money were forced to sell at substantial losses. If the fear of lower prices had been removed and most of the securities could have been redeemed at the Treasury at predetermined prices, things might have been quite different. The small investor who needed his money would have been better off and the distribution of the public debt would not have been narrowed by the ultimate concentration of Liberty bonds in the hands of large investors who were willing to absorb them on a long-term basis at bargain prices.

No Huge E Bond Redemptions in Sight

Now the situation is much better. Most of the smaller holders of securities own savings bonds and they are protected against price risks. At this point someone may say, of course, that savings bonds can be cashed on demand, and that the Treasury is thus vulnerable—and that it may yet be necessary to borrow from banks to raise funds to cover redemptions. That is a possibility—but probably a remote one. In this connection bear in mind that individuals are still receiving high incomes and indications are that they will continue to receive them for some time. Therefore, there is not the necessity for huge cash redemptions of savings bonds as might prevail in less prosperous times.

But even if conditions get to the point where a great many people are in need of money, they can be expected to draw down their savings accounts and checking accounts, too. In such a situation I'd still be inclined to bet that the savings bond money would hold relatively well. In any case, the Treasury is in a much better position to fund these securities to meet the market conditions at the time than the individual holders would be if they held marketable securities.

Look at the figures on savings bond redemptions. There were some people who predicted an avalanche of redemptions with the end of the war. I never felt this way and it was the general Treasury view that redemptions would not be a real problem. Our optimism has been more than justified, for our estimates of redemptions were substantially higher than the actual figures. The latest figures indicate that in some months total redemptions have exceeded total sales, but this is principally the result of a fall-off in sales. As a matter of fact, from last August through March, redemptions have been steady, ranging between $528 million and $634 million a month. Remember that this period involved major reconversion difficulties, including the large industrial strikes.

Going back to the figures on the increase in the debt over the last six years, let me summarize the key figures again. Out of the total increase in debt of $229 billion, issues not eligible to banks amounted to $122 billion, leaving $107 billion in bank-eligible issues.

Bank-Eligible Securities

The bulk of this increase in bank-eligible securities was in very short-term securities. In fact, about $70 billion consisted of bills, certificates, and notes. It was obvious all along that the banks were going to have to provide a considerable amount of the Treasury's wartime financing needs. Early in the war period the decision was made that new securities available to banks should be confined to issues with maturities of 10 years or less. It was felt that without this provision there might be a tendency for longer issues to get into the hands of banks and thus weaken their liquidity position. The end result was that about two-third of the increase in all bank-eligible securities consisted of bills, certificates and notes.

There remains a total of $37 billion of bank-eligible securities which were issued in the form of bonds. The bulk of these has already been taken up by banks, but there is still some supply in non-bank hands. It is this supply which has caused concern to some people because of the potential "monetization of the debt." As I understand it, the problem here seems to be that bonds eligible to banks yield a higher return than certificates so there is a tendency for banks to buy them up in the market and thus transfer debt from nonbank investors to banks. In this process, of course, the original owners of the bonds are provided with new deposits.

But this is a place where overall supply and demand factors must be considered. I just mentioned that only a net of $37 billion of bank-eligible bonds had been issued in the six-year period we are considering. The amount outstanding at the beginning of this period was $31 billion, so we have in all something like $68 billion of these issues outstanding, both new and old. The banks already own $49 billion of this total, leaving less than $20 billion in nonbank hands. The figure goes up to $23 billion if we add in the bank-restricted issue which becomes eligible to banks in September of this year.

This $23 billion may be viewed as a theoretical ceiling on the supply of bonds which banks might seek to monetize. The real ceiling is lower, however. Many of these bonds are of short maturity and they do not yield a great deal more than certificates. Nearly one-third of the $23 billion for example, yield less than 1¼%. Even if the demand were there for the entire $23 billion these securities are only "available," of course, if the people who hold them are willing to sell. About half of the $23 billion is owned by insurance companies and savings banks. I read in the papers that these investors are seeking more securities all the time because investment funds are still coming in to them in large volume. Certainly they would not be willing to sell bank-eligible bonds until such time as they could substitute one with a yield higher than the present market yield. The same is true, of course, of well-to-do people and other long-term investors.

There is, of course, also the possibility of some monetization growing out of the sale by nonbank investors of short-term securities to the banks. However, this is not usually bank-induced monetization—as in the case of bonds—but results for the most part from the desire of some investors to raise funds. The total supply of bills, certificates, and notes in nonbank hands at the end of the Victory Loan was less than $17 billion. Some of these have already matured and have been paid off and the total will be reduced further when more debt is retired. Some more of them may be sold in the market, but the amount will probably not be great. Corporations account for a large share of these holdings, and there will be some liquidations here, although the working capital of corporations is so large that substantial holdings of short-term government securities should continue for some time.

Trend Away from Debt Monetization

All told, the amount of monetization likely to take place is probably not large, particularly in relation to the $114 billion of securities held by banks at the end of 1945. Just looking back over the short period since the Victory Loan, the facts seems to indicate that the trend has been away from monetization—not toward it. Bank holdings of Government securities declined significantly in recent months. From the beginning of January through the first few days in April, Federal Reserve Banks and commercial banks in leading cities alone reduced their holdings of Government securities by a billion dollars more than the total decline in Federal interest-bearing debt during the period. The Treasury is now paying off maturing securities rather rapidly by applying part of the big cash balance at the end of the Victory Loan to debt repayment. As a matter of fact, the public debt shows a reduction of about $7 billion between the wartime peak at the end of February and the first of May.

I believe this debt reduction program will continue for sometime. I am rather optimistic on the budgetary outlook. I believe that we will have a balanced budget in 1947 and subsequent years with a surplus to be used for debt retirement purposes. If this prediction materializes, it seems to me that with the present general fund balance, proceeds from the sales of savings bonds, surplus receipts from taxes, and Government trust funds available for investment, we can expect to see a continuation of the contraction of the bank eligible debt.

Sale of Savings Bonds to Continue

And speaking of Savings Bonds, the Treasury has announced that its program to sell these securities will continue to be a keystone in the Treasury's financing operations. The war is over, but none of us is in a position to take a passive attitude toward the continuation of the Savings Bond program. This program can make a positive contribution toward keeping inflationary pressures at a minimum by encouraging security purchases by individuals rather than by banks. It can continue to stimulate the individual's participation and interest in the nation's finances, while insuring him a good return on his investment. The program deserves a vote of confidence from all of us.

I say this because I know that the Treasury deserves our support, and for that matter, I know that in most cases that confidence is felt. But occasionaly it is also true that we, on the outside, try to look at mountains through a miscroscope focused on our own problems.

The Treasury, on the other hand, has the problem of reconciling all of the factors bearing on public debt policy. There is no unanimity of opinion about most public debt problems, and it is the Secretary's job to evaluate the several viewpoints in making his decisions. The Treasury is well aware of the existence of divergent views on public debt management, and they are all given consideration when each decision is made.

The weighing of opinions has always been true with respect to Treasury problems, but the public debt is so big today that it affects all of us much more importantly. I hardly need to tell you that Federal securities comprise over 60% of the assets of mutual savings banks, 55% of the assets of commercial banks, 45% for insurance companies and nearly 30% for savings and loan associations. This means that Government securities are overwhelmingly important to most financial institutions. It means that public debt management may control the destiny of many of these institutions. It is small wonder that rumors float around to an eager audience. This excitement will wear down as we become used to working in the new environment. As a result of World War I the debt increased from about $1 billion to $26 billion and it took a while to get used to that. You heard the same comments after the last war as you hear today. There were many statements, speeches, and articles which indicated that the burden of that debt would hold the country back for years to follow and questions were raised as to our ability to tax the country sufficiently to carry this enormous burden of debt. It didn't take us very long to grow up to it. And that is just what we must do now.

In closing I want to say that I have complete confidence in the ability of the Secretary of the Treasury and his staff to manage the Public Debt in the interest of the country as a whole. He should, of course, follow the long established policy of consulting with representatives of the Federal Reserve System who have a vital interest in the matter and with representatives of outside financial institutions and get their views and suggestions with respect to the handling of the Public Debt, but he is responsible under the law to the President and Congress for maintaining the public credit of the United States. For that reason he must make the final decisions. I am sure that no one is more conscious of this responsibility than he. I am perfectly willing to trust him with it.

Quinlan Returns to Minsch, Monell & Co.

Eldridge E. Quinlan, released from active duty as a Lt. Colonel, Air Corps, has returned to Minsch, Monell & Co., 115 Broadway, New York City, members of the New York Stock Exchange, with which firm he has been associated for more than 20 years. After serving for three years at Santa Ana Army Air Base, California, where has was head of the Pilot School at the time of the dissolution of pilot training, Colonel Quinlan was transferred to the Air Technical Service Command and stationed at the Douglas Aircraft plant, Long Beach, California.

To Swan, Stickley Co.

BOSTON, MASS. — George J. Stickley will become a partner with Frederick M. Swan in Swan, Stickley & Co. Offices will be located at 75 Federal Street. Mr. Stickley has been associated with Mr. Swan in Frederick M. Swan & Company, of which the latter was proprietor.

Panama 3% Bonds

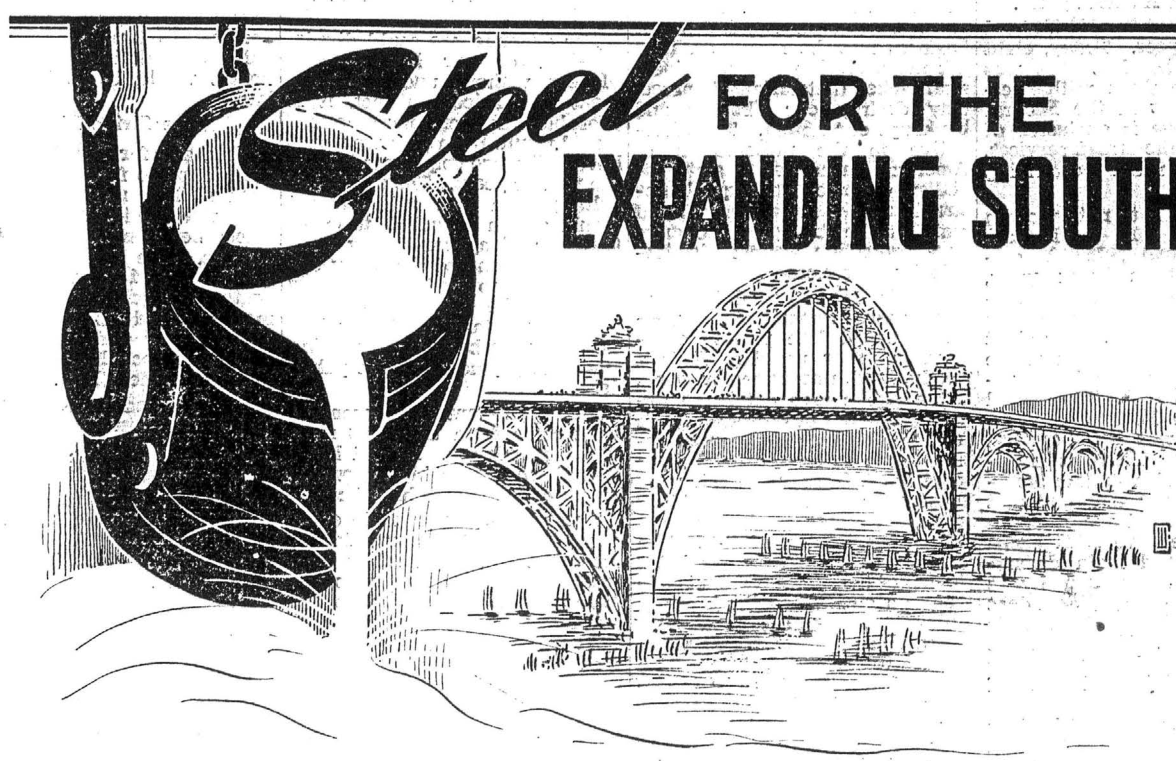
Holders of Republic of Panama Arrears Certificates issued pursuant to the Service Readjustment Plan dated Nov. 23, 1933, are being notified that the time within which these certificates may be exchanged for Republic of Panama 3% External Sinking Fund Bonds due May 1, 1987, under an offer published as of May 1, 1941, has been extended from May 1, 1946, to May 1, 1947.

Holders of Scrip Certificates for Republic of Panama 3% External Sinking Fund Bonds are being notified that the period for exchange of these certificates in multiples of $50 principal amount has also been extended from May 1, 1946, to May 1, 1947.

Copies of the offer and the required form letter of transmittal may be obtained from the National City Bank of New York, Fiscal Agent, 20 Exchange Place, New York City.

Moffat & Co. Formed

GALESBURG, ILL. — David W. Moffat is forming Moffat & Co. with offices at 396 North Academy Street. He will be President of the new firm. Mr. Moffat was formerly with L. F. Rothschild & Co. and in the past was with Shields & Co.



Restoring Fiscal Sanity in America

(Continued from page 2505)

the year 1935 because that was the time the then President of the United States abandoned his policy of economy and started an era of vast Federal expenditures from borrowed money for the purpose of experimenting in the use of public funds as a panacea for our difficulties and to lead us into a new era.

I mention 1935 not because I feel we can return to exactly the same kind of government we had then, but such a comparison may impress upon us the necessity of reaching a common ground—between the Government then and the Government now—where our present day functions and obligations can be properly discharged without endangering those things that have made America great.

In 1935 we had 719,440 Federal civilian employees. Today, eight months after the last shot was fired, we have three million civilian employees in the Federal service, and this is exclusive of of all those in the armed services, many of whom are performing clerical work.

It is significant to note that on Armistice Day, 1918, the Federal Government had 975,000 employees, and within three months, more than one-third of these employees were dismissed from the public service. Today, after eight months of peace, the peak of the war employment has been reduced less than 16%. The annual payroll of the Federal Government in 1935 was 1 billion, 361 million dollars. Today it is approaching 8 billion dollars annually—nearly twice the total cost of all governmental operations in 1935. Now we have 1,141 agencies, bureaus and main departments, or six times as many as we had in 1935. Our national debt then was 29 billion dollars. It is now 275 billion. Today we are paying 16 billion dollars annually in Federal subsidies and grants of one character or another. In 1935 we paid approximately 3 billions of dollars in subsidies and grants. In 1935 the per capita taxes were $20. Today the per capital taxes are $308.

I may say the payment of subsidies is an insidious and vicious practice and, if continued, will do much to undermine our American way of life. These Government subsidies are integrated in many lines of business—in oil, in coal, in building, in food. With the high level of the purchasing power of the people, continuing and increasing subsidies certainly will not serve to reduce the cost of living.

In 1935 we collected 2 billion, 672 million dollars in taxes. This year we will collect 42 billion, 932 million. I am well aware of the fact that in this interim between 1935 and 1945 we prepared for, fought and won the greatest war in all history, but the huge cost of this war, and the debt incurred, should convince us that our Government cannot indefinitely play the part of Santa Claus, both at home and abroad.

Democracy Cannot Survive Fiscal Insolvency

Many officials of the Government are seeking to spend more and more money than ever before in our peacetime history. Today at Washington a public man is liberal in proportion as to how liberal he is with other people's money. Try to prevent the spending of money you do not have, and you are berated as a tory and reactionary, an economic royalist, and regarded generally as a citizen of the most questionable character. Yet, it is a basic and indisputable fact that no democracy has or can survive if its fiscal solvency is impaired. However, these self-professed liberals do not hesitate to imperil the very institutions of our Government by attempting to continue and expand their schemes of experimentation. Let us remember that the insolvency of a government begins when taxes necessary to support the government become so high that diminishing returns result.

In this battle to restore the United States Government to the people, a few simple principles must be laid down. The first is that in our democracy the people must support the Government. The Government cannot support the people and preserve our democracy.

Recognizing that during the emergency created by the war, business had to conform, for a time, to necessary measures of control, yet, in time of peace, all power cannot be effectively centralized at Washington. Although some reasonable regulations of business may be necessary, it is not inconceivable that a business straitjacket, dictatorially imposed, may destroy our liberties and bankrupt our nation. The alternative to the preservation of American principles is state socialism or some "ism" equally destructive. We must preserve and maintain the strength of Congress as a protection against dictatorship by bureaucracy.

In this fight so vital to all of us you must remember that public economy, like private economy, is never popular. It is a steady, hard, unspectacular grind. Let a public man obtain an appropriation out of borrowed funds for his district, and he may return home to be greeted by the town band, but for the returning economizer there are often black looks and sometimes hard words. I know something of this. The average citizen frequently holds the belief that a grant from Uncle Sam is a gift. They think of the Federal Government as a third party, when in fact, we ourselves are the Government. The wealth of the Government is our collective wealth. In the final analysis our Government can be operated only on the taxes we pay out of the profits of the free enterprise system of America. And this system can be effectively destroyed by excessive taxation; by destroying the profit incentive; by unreasonable and senseless governmental regulation, or by Government competition, and by continued and arbitrary strikes.

Plan to Restore Fiscal Sanity

If I were asked to submit a plan to restore fiscal sanity in America after 16 years of continued deficits, I would include:

First: Balance the budget at the earliest possible date.

Second: Keep the budget in balance, for it is certain that upon the first warning of any business recession the blue prints for a vast program of public spending with deficit funds will be prepared by the bureaus at Washington. Our people must refrain from asking for Federal funds to prime the pump or for Federal grants for functions that should be performed by local and state governments.

Third: Make payments on the public debt, even if only of moderate amounts at the start.

Fourth: Reduce taxes by eliminating unnecessary and extravagant Federal expenditures. I am here to say that the field of extravagance and waste at Washington is as wide as the ocean and offers unlimited possibilities for elimination and reduction.

A bill introduced by me to reduce the legal debt limit from 300 billion dollars to 275 billion was favorably reported by the Senate Finance Committee, with the approval of the Secretary of the Treasury, and it is now on the Senate Calendar. If it is enacted, as I hope and believe it will be, the Federal Government can no longer operate by deficit financing, because our present debt is approximately the amount of this new debt limitation. We will thus restore a control over excessive spending, which has been lacking in the past 16 deficit years, namely, to levy and collect taxes to meet the expenditures with funds out of current revenue. This is the only real safeguard against extravagance in a democracy such as ours, for when borrowed money is spent the average taxpayer is not conscious of the spending. In America tax conscious citizens are our greatest protection against unwarranted and wasteful Government disbursements. When deficit financing ends the taxpayer can demand economy and, as a reward, can receive a prompt and direct benefit by the reduction of his tax burden.

For example, we could dismiss one-half of our Federal employees without undue impairment of service. In fact, it is probable that an improvement would result. Even then we would have 50% more employees than in the prewar years. The saving resulting from this retrenchment would give a reduction to every taxpayer of approximately 10%. This is but one of the many opportunities to reduce expenses and pass the savings on to the taxpayers in tax reductions while balancing the budget and making moderate payments on the public debt.

The sentiment for economy must come from the grass roots of our population. Let all know that if we choose high spending we must also choose high taxes.

There is no easy road to economy. The first step must start at the ballot box and to elect Congressmen and Senators who believe in economy and who are willing to fight for that principle even at the risk of their own defeat. The opposition of highly organized and powerful minorities who are now beneficiaries of Federal spending must be met. Federal bureaus are always active in opposition to any effort to reduce their power and many of these bureaus do not hesitate to use the radio and mails at public expense to oppose any retrenchment move that affects them.

Numerous legislative devices have from time to time been suggested to curb Federal spending, but, as we live in a democracy and the American people rule our Government, the desire for efficiency and economy must come from the people themselves, and, as I have said, this sentiment can only be made articulate when we operate on the pay-as-you-go basis.

Lump sum appropriations should be avoided by Congress, and, in my judgment, the most effective single reform in the legislative procedure of making appropriations is to have only one appropriation bill, so that when appropriations are made by Congress the whole picture can be presented and uniform action taken in measures for economy, especially in such cases as the reduction of personnel. The practice now is to bring in perhaps a dozen or more appropriation bills at intervals of weeks and sometimes months and it is impossible to focus public attention on appropriations as would be the case if one bill were presented.

Importance of Maintaining Production

My remarks would not be complete unless I discussed the vital question of maintaining full production in the factories and on the farms. With our national debt of 275 billion dollars, we can only service this debt and perform our essential public functions by means of a high national income. The tax income of the Government is in direct ratio to the national gross income, the reason being that we depend on income taxes for our main source of revenue.

The national income now is on the basis of about 165 billion dollars annually, and, at existing rates of taxation the Federal income is estimated at 44 billion dollars annually. Should the national income fall to 150 billion, the present tax structure would yield 38 billion. If the national income falls to 100 billion dollars, the tax revenue would be 20 billion. If the national income falls to 80 billion dollars, which was the income for 1929, the highest in our history previous to World War II, then the tax revenue, at existing rates, would be only 15 billion dollars, or one-third of the present tax revenue.

This forcibly demonstrates the necessity for full production, as, if the national income should fall to the level of 1929, on a basis of next year's budget of 35 billion dollars, the deficit in current expenses would be 20 billion dollars.

The Strike Menace

Now, and for months, the main obstruction to full production has been strikes, many arbitrary in character and in violation of contracts between unions and employers. The strike menace has grown since 1937, when the executive branch of the Government refused to condemn sitdown strikes and the then Secretary of Labor, Miss Perkins, actually condoned them.

We have had strike after strike in vital basic industries. The coal strike has lasted for 30 days and has resulted in a loss of 50 million tons of production. If the coal strike continues for another week, many important industries will be forced to close down. If it continues two weeks, railroads, public utilities, and many of the most vital functions of our society will stop. The nation is threatened with a general railroad strike.

With an arrogance and ruthlessness that have been characteristic of him since he was permitted to win every contest he has had with our Government, John Lewis has not even yet presented his terms for the settlement of this strike. He demands first that the principle of paying a royalty to him be recognized. This royalty would amount to 60 million dollars annually. He has made no statement as to how this fund would be expended. He refuses to negotiate until the royalty principle is first agreed to. Whether we can avert a national catastrophe is very much in doubt.

I do not believe our business economy can operate by paying royalties to labor leaders, such as John L. Lewis and Petrillo, and, for my part, I feel it is the duty of the Congress of the United States to prohibit such demands by appropriate legislation.

The Case bill passed the House and, after weeks of delay, was emasculated by the Senate Committee on Labor. It is now on the Senate Calendar and, when it comes up for consideration, a determined group of Senators will offer amendments to make it effective for the purpose of controlling strikes.

I feel there can be no hope for prosperity and industrial peace for America until the equality of rights of all citizens, corporations, and organizations is written into law on a basis of justice to all. Unless contracts between labor and industry are observed and have the same legal status as other contracts, we can only look forward to a long period of industrial strife and business chaos.

A manufacturer who makes a contract with a labor union must have confidence in the performance of that agreement in order to plan his operations. Yet the union may breach its contract and management has no redress in law, although the union is free to resort to all legal processes as well as illegal pressures to enforce the same contract.

The labor unions have great power—virtually the power of life and death over the economic progress of America. Hand in hand with power goes an equivalent responsibility. For years we have seen repeated instances of broken union contracts—of sympathy strikes to encourage and support strikers working for some other corporation, the sympathy strikers having no grievance against their own employer. We have seen, time and again, jurisdictional strikes—strikes arising from disputes between two unions, when the employer is in no manner involved, yet must suffer the consequences and losses resulting from shutting down his plant. This lack of union responsibility has reached an intolerable stage.

I am strongly for collective bargaining, but bargaining must mean what it says—namely, that a bargain made is equally binding on both parties to the agreement. I believe in the inherent right of labor to organize. Labor unions have a proper place in the economic life of America. Unions are here to stay, but, if we are to have orderly business conditions, labor unions as such must have the same legal responsibility to perform their contracts as the owners of industry. If one can be sued for violation of a contract, the other should be in the same status. When two parties make a contract, if that contract is to mean anything, there must be a mutuality of responsibility. We may as well try to build a house without a foundation as to enact legislation to prevent industrial and labor strife without first providing for mutual responsibility.

Senate Joint Resolution 133, which I have introduced, asks no more of unions than existing laws require of industrial corporations. The Securities and Exchange Commission was established to see that neither the public nor the corporation stockholders were defrauded by industrial management. One of the powers of the Commission is to require of all corporations full reports and information as to their operations.

As a first step to union responsibility, and this responsibility I believe to be essential before any real progress can be made to end industrial strife, the legislation I have offered provides:

1. That within a reasonable time, and annually thereafter, all unions shall register with the Securities and Exchange Commission; that each union shall annually report to the Commission, among other information: Initiation fees; annual dues charged to each member; assessments levied during the past 12-month period; limitation on membership; number of paid-up members; salaries of the officers; date of the last election of officers; the method of election; the vote for and against each candidate for office; reserves in the treasury; the date of the last detailed financial statement furnished to all members, and the method of publication or circulation of such statement.

2. That every labor organization having as members one or more employees or persons engaged in commerce shall take out articles of incorporation under the laws of the District of Columbia, or any State authorizing such incorporation.

3. That labor unions can be sued for civil damages, either for the breach of its employment contracts or for the unlawful damage or destruction of property.

4. That no labor organization shall be entitled to any rights, privileges, or benefits under the National Labor Relations Act unless and until such organization complies with the provisions of this law.

Labor unions today have great

financial resources. At the direction of Congress, the Joint Committee on Internal Revenue Taxation has made a preliminary report stating that of approximately one-half of the labor unions reporting, those unions had an income for the year 1944 of 389 million, 700 thousand dollars. Included in the annual expenses of these unions were wages, salaries, and commissions of 50 million dollars; compensation of officers, 38 million; other operating expenses, 88 million, with a total expenditure for the year 1944 of 323 million dollars, leaving 66 million to be added to the already very large financial reserves.

Why shouldn't union members know what salaries their officers receive? Why shouldn't the union members and the general public know how much was expended for political purposes? A business corporation is prohibited by law from making a political contribution. An individual making a political contribution over a certain amount must pay a gift tax and report the same to the Government.

Labor unions in America have "grown up." They are now "big business" in their power and financial assets. They must assume their proper responsibility for their acts affecting the economic welfare of America. This legislation will do no more than place upon unions a legal responsibility commensurate with their power. As I have said, many have large financial resources adequate to pay damages for violation of contracts (I am informed that 12 unions have financial reserves of 130 million, 762 thousand dollars). At least the employer, under this plan, will know in advance the financial responsibility of the union with which he deals.

This bill will implement and strengthen such legislation as proposed in the Case bill. I do not offer this as a panacea to solve all labor difficulties, but, in the long range objective for industrial peace, I think we must put first things first and give to labor unions a legal status and responsibility. This is the foundation. Until this responsibility to organized government is established there can be no lasting industrial peace upon which our future prosperity so vitally depends.

Private Banks in Argentina Reduced to Agencies of Central Bk.

According to press accounts from Buenos Aires April 25 a new Government decree, effective that day, reduces all private banks in Argentina substantially to agencies of the Central Bank, recently nationalized. The Associated Press advices from which we quote, went on to say:

Under the new decree, issued after the close of business last night, the private banks will be authorized to receive deposits on behalf of the Central Bank but will be unable to lend this money on their own responsibility.

The decree reduces the lending power of the private banks by about 80% and at the same time guarantees bank deposits. These banks still are permitted to lend their own money put up by stockholders or earned in the past and retained as reserves, but this amounts to only about 20% of the total previously available for loans.

Another effect of the decree, which must be ratified by the new Congress if it is to remain in effect after President-elect Juan D. Peron is inaugurated, would be to reduce bank profits by from 50 to 80%, since the banks will receive only part of the interest from loans made with Government approval.

Broker-Dealer Personnel Items

(Special to The Financial Chronicle)

BLOOMINGTON, ILL.—**Donald H. Willard** has joined the staff of **C. E. Bohlander & Co.**, American State Bank Building, after serving in the U. S. Army.

(Special to The Financial Chronicle)

BOSTON, MASS. — **Rollin M. Gallagher, Jr.**, has become associated with **Minot, Kendall & Co., Inc.**, 15 Congress Street. He was previously with Eaton & Howard, Inc.

(Special to The Financial Chronicle)

BOSTON, MASS. — **Frank L. Benson, Jr., William G. MacDonald** and **Arthur A. Staff** are now with **W. F. Rutter, Incorporated**, 19 Congress Street.

(Special to The Financial Chronicle)

BRIDGEPORT, CONN.—**George F. Gonyer** is now with **Smith, Ramsay & Co., Inc.**, 207 State Street.

(Special to The Financial Chronicle)

CHARLOTTE, N. C.—**W. M. Archer, Jr.**, and **Fred Sheetz** have joined the staff of **Louis G. Rogers & Co.**, Johnston Building.

(Special to The Financial Chronicle)

CINCINNATI, OHIO — **George T. Grady** has become associated with **John E. Joseph & Co.**, 18 East Fourth Street. He was formerly with George Eustis & Co.

(Special to The Financial Chronicle)

CINCINNATI, OHIO—**O. William Hueter, Jr.**, and **Vernon L. Lash** are with **Slayton & Co., Inc.**

(Special to The Financial Chronicle)

CLEVELAND, OHIO — **Richard G. Kaiser** and **William C. McOwen** have become associated with **The First Cleveland Corporation**, National City Bank Building. Mr. McOwen, prior to serving in the armed forces was with Merrill Lynch, Pierce, Fenner & Beane.

(Special to The Financial Chronicle)

CLEVELAND, O. — **William H. Staring, Jr.**, has become associated with **Otis & Co.**, Terminal Tower. He was formerly with the National City Bank of Cleveland.

(Special to The Financial Chronicle)

COLUMBUS, OHIO—**Ernest C. Carl** is with the **Samuel & Engler Co.**, 16 East Broad Street.

(Special to The Financial Chronicle)

DETROIT, MICH.—**Henry C. Duffield** is with **S. R. Livingstone & Company**, Penobscot Building. In the past he was with Alison & Co., and Whitlock, Smith & Co.

(Special to The Financial Chronicle)

DETROIT, MICH.—**Milford C. Creviston** is with **Olmsted & Mulhall**, of Kalamazoo. In the past he was with Harrison & Austin, and Mason, Moran & Co., of Chicago.

(Special to The Financial Chronicle)

DEROIT, MICH.—**Richard G. Brennan, Maloye R. Holmes**, and **Howard R. Kendall** are with **Slayton & Co., Inc.**

(Special to The Financial Chronicle)

DETROIT, MICH.—**Hanson L. Hartman** is with **Smith, Hague & Co.**, Penobscot Building.

(Special to The Financial Chronicle)

DETROIT, MICH.—**Max E. Bolhover** and **George V. Donoghue** have become associated with **A. M. Kidder & Co.**, 600 Griswold Street. Mr. Bolhover has been serving in the armed forces. Mr. Donoghue was with Wm. C. Roney & Co. in the past.

(Special to The Financial Chronicle)

DETROIT, MICH.—**Robert E. Williams** is now with **Mercier, McDowell & Dolphyn**, Buhl Building. He was previously with A. M. Kidder & Co.

(Special to The Financial Chronicle)

DETROIT, MICH.—**Robert G. Cook** has become associated with **C. G. McDonald & Co.**, Guardian Building, after serving in the U. S. Army Air Corps.

(Special to The Financial Chronicle)

JACKSON, MICH.—**Milford B. Reed** is with **H. H. Butterfield & Co.**, Jackson City Bank & Trust Company Building. He was formerly with Schouten, White & Co. and Peninsular State Co.

(Special to The Financial Chronicle)

KANSAS CITY, MO.—**Ray A. Powell** is with **Herrick, Waddell & Co., Inc.**, 1012 Baltimore Avenue.

(Special to The Financial Chronicle)

KANSAS CITY, MO.—**John F. Parker** has joined the staff of **Lucas, Farrell & Satterlee, Inc.**, Columbia Bank Building.

(Special to The Financial Chronicle)

KANSAS CITY, MO.—**John J. Strandberg** has rejoined **Harris, Upham & Co.**, 912 Baltimore Avenue, after serving in the U. S. Navy.

(Special to The Financial Chronicle)

KANSAS CITY, MO.—**Francis D. Bertrand** has become connected with **H. O. Peet & Co.**, 23 West Tenth, after serving in the U. S. Marine Corps.

LANSING, MICH.—**William R. Lesher** is now with **Stoetzer, Faulkner & Co.**, Penobscot Building, Detroit, Mich. In the past Mr. Lesher was in business for himself in Lansing.

(Special to The Financial Chronicle)

LINCOLN, NEB. — **Evert M. Hunt** has rejoined the staff of the **First Trust Company of Lincoln**, after serving in the armed forces.

(Special to The Financial Chronicle)

LOS ANGELES, CALIF.—**Robert L. Gillilan** is with **Quincy Cass Associates**, 523 West Sixth Street.

(Special to The Financial Chronicle)

LOS ANGELES, CALIF.—**Maynard W. Johnson** is with **Edgerton, Wykoff & Co.**, 621 South Spring Street.

(Special to The Financial Chronicle)

LOS ANGELES, CALIF.—**Robert Carey Hill** is with **Hill, Richards & Co.**, 621 South Spring Street.

(Special to The Financial Chronicle)

LOS ANGELES, CALIF.—**Glen D. Hunter** is now connected with **Lester & Co.**, 621 South Spring Street.

(Special to The Financial Chronicle)

LOS ANGELES, CALIF.—**Walter M. Bohme** and **Harry E. Griffith** have joined the staff of **Livingston & Co.**, 639 South Spring Street. Mr. Griffith in the past was with Searl-Merrick Co.

(Special to The Financial Chronicle)

LOS ANGELES, CALIF.—**Thomas T. Ellsworth, Keith T. Spees**, and **Milo M. Turner** are with **Morgan & Co.**, 634 South Spring Street. Mr. Ellsworth previously was with Lester & Co.

(Special to The Financial Chronicle)

LOS ANGELES, CALIF.—**William L. Edington** is now connected with the **Pacific Company of California**, 623 South Hope Street.

(Special to The Financial Chronicle)

LOS ANGELES, CALIF.—**Albert E. Culbard** and **Jerome A. Moore** are with **Slayton & Co., Inc.** Mr. Culbard was formerly with Geo. H. Grant & Co.

(Special to The Financial Chronicle)

LOS ANGELES, CALIF.—**Richard M. Hoe** is now affiliated with **Wm. R. Staats Co.**, 640 South Spring Street.

(Special to The Financial Chronicle)

LOS ANGELES, CALIF.—**John E. Dion** has become associated with **Turner-Poindexter & Co.**, 629 South Spring Street. He was previously with Nelson Douglass & Co.

(Special to The Financial Chronicle)

LOS ANGELES, CALIF.—**William R. Burns, Jr., Robert G. Fife, Charles H. Huffman**, and **Norman K. Millican** have been added to the staff of **Dean Witter & Co.**, 634 South Spring Street.

(Special to The Financial Chronicle)

LOS ANGELES, CALIF.—**Raymond L. Haden** is with **First California Company**, 650 South Spring Street.

(Special to The Financial Chronicle)

LOS ANGELES, CALIF.—**Robert M. Strong, Jr.**, and **K. Sturges** are with **Walston, Hoffman & Goodwin**, 650 South Spring Street.

The Control of Inflation

(Continued from first page)

rebuilding of stable economic systems throughout the world.

Originating in an excessive money supply, inflation affects all aspects of economic life. Like many economic and social processes, its effects are not immediately apparent. No single inflation duplicates another as to background, duration, severity and after-effects. All inflations, however, are characterized by sharp increases in the means of payment and in prices.

Inflationary forces are generated in major wars. War costs are generally so tremendous that the public is unwilling to defray them by the payment of taxes or the purchase of Government obligations. In consequence, the difference has to be met by increases in money and bank credit. The increase in purchasing power thus created results in a large volume of liquid funds which holders frequently are unable to utilize during the war itself because of rationing and shortages of goods, but which exerts an upward pressure upon prices once the war has come to an end and patriotic ardor cools.

To the extent that wars can be financed through taxes and the sale of bonds to non-commercial bank investors, postwar financial and economic distortions are diminished. Orthodox measures of finance reduce the difficulties of effecting the transition to a peacetime basis and spare an economy the costs and ordeal of postwar inflation.

Economic Effects of Inflation

The destructive economic effects of inflation have been continuously emphasized by our economists, bankers, leaders of business and labor groups. Despite this, however, lessons of the past are frequently forgotten and specious arguments advanced in an attempt to explain away or to justify inflationary developments. Thus the doctrines now so prevalent—that depressions result from underconsumption, that the economy is plagued by recurrent periods of oversaving, that the forces of stagnation are basically stronger than those of recovery, that easy money is essential for the stimulation of productive activity—have made us all too complacent over present developments. Like an economic opiate, they have dulled our senses to the dangers inherent in the present situation.

In a period of inflation, wealth is redistributed on a gigantic scale, and the more industrialized a nation, the greater is this redistribution. Generally speaking, the middle classes are impoverished while other groups enjoy windfall gains. Productive activity is distorted. Speculative forces are stimulated. Reckless spending is provoked. The rentier group, composed of individuals, universities, foundations and charitable institutions, is affected adversely both by the low rates of interest symptomatic of inflation in its earlier stages and the progressive depreciation in the purchasing power of money. The stage is set for a subsequent deflation and depression, for inflation always carries the seeds of its own destruction.

Psychological and Political Consequences

The economic effects of inflation are paralleled by equally important psychological and political consequences. The community becomes demoralized and, as the middle classes are impoverished, the forces of democracy are weakened. Strength is given to the political forces of the extreme right and left and people become receptive to demagogic appeals.

The demoralizing consequences of inflation are as well known as its destructive economic effects. Despite this fact nations are always reluctant to check the forces of inflation. Those groups which have profited from price increases oppose remedial measures and people in general are often unwilling to suffer the temporary pain of deflation. Living in an illusion of prosperity and wealth, they are reluctant to take measures necessary to restore the economy to a healthy condition.

Basic Causes

The basic cause of inflationary trends is the huge increase in the means of payment, currency and bank deposits, which press upon the markets for expenditure at a time when goods are still relatively scarce. The increase in the means of payment represents that part of war expenditures not financed by taxes or by the sale of obligations to investors other than commercial banks. In the five calendar years from the beginning of 1941 to the end of 1945 total budget expenditures of the American Government approximated \$351 billions. The net budget deficit was \$201 billions and the total debt increased by \$228 billions. About 42% of the rise in the debt, or \$95 billions, was financed by an increase in holdings of Government obligations by the commercial banking system, i.e., by the Federal Reserve Banks and the commercial banks. It was the rise in holdings of the public debt by the commercial banking system that caused commercial bank deposits in this period to increase from \$54 to \$136 billions (exclusive of inter-bank deposits). The increase in bank deposits would, of course, have been smaller had our Government been able to finance a larger share of the cost of the war by taxes or by the sale of its obligations outside of the commercial banking system.

Combating Inflation

Combating inflation requires the adoption of measures which will not only check further increases in bank deposits but which will bring about an actual decline. Commercial bankers need not fear decreases in total deposit volume. They need to be concerned over the fact that measures appropriate to a control of an immoderate expansion in deposit volume may not be adopted.

The exemption of the war loan account for reserve requirements created a situation in which commercial banks increased their holdings of the public debt in very large amounts during the loan drives. It was then that they purchased obligations sold by other investors who were reducing their portfolios in order to participate in the current drives. The amount of commercial bank credit involved in the eight drives, in the form of purchases of or loans against Government obligations, varied from about 29 to approximately 50% of the total volume of obligations sold. In the Victory Loan it approximated 43%. Following each loan drive, as the war loan account fell and private deposits rose, member banks, in order to build up their reserves to the legal minimum, shifted some part of their holdings of Government obligations to the Federal Reserve Banks.

The increase in bank deposits and in currency was supported by a sharp rise in the total volume of Federal Reserve credit. Policies of war finance placed upon the Reserve Banks the responsibility of maintaining a certain level and structure of interest rates. This responsibility is described in the **Annual Report of the Board of Governors of the Federal Reserve System** for 1943, where the following statement appears: "Maintaining the structure of prices and yields of Government securities, and supplying banks with adequate reserves to enable them to purchase such amounts of Government securities as banks were called upon to take, continued to be the general objectives of Federal Reserve purchases of Government securities in 1943 (pp. 15-16)."

Effect of Federal Reserve Debt Holdings

In this war, the increase in Federal Reserve credit took the form mainly of a rise in holdings of the public debt, whereas in World War I it took the form mainly of loans to member banks. This difference in the character of the increase in Federal Reserve credit has an important bearing upon the problem of inflation. When the increase in Federal Reserve credit takes the form of loans to member banks, the forces of inflation are retarded. Member banks seek to reduce their indebtedness and, if rates of rediscount are raised, they feel under increased pressure to do so. When Federal Reserve credit takes the form of open-market purchases, no such check is applied to the forces of inflation.

The fact that the Federal Reserve Banks in World War II were responsible for maintaining a certain structure and level of interest rates meant that they lacked discretionary control over open-market operations. As the situation worked out virtual control over the short term open-market portfolio of the Reserve Banks passed into the hands of the market. It was the market that decided to a large degree the amount of securities to be shifted to the Federal Reserve Banks. Necessary though such a policy may have been in time of war, the Federal Reserve Banks should not in time of peace be charged with the responsibility of maintaining ceilings on interest rates.

Rise in Liquid Assets

Methods of financing this war led to a sharp rise in the volume of liquid assets held by individuals and businesses. About one-half of the estimated increase took the form of currency and deposits. The balance was made up of an increase in holdings of Government securities, a large part of which consist of redemption obligations. From the end of 1941 to the end of 1945, holdings of total liquid assets by individuals are estimated to have increased from \$55 to \$146 billions, and by business firms from \$26 to \$80 billions.[1]

These liquid assets cannot simply be matched against new production. New production creates new income and new purchasing power. In the meantime, the liquid assets continue to hang over the market, threatening sharp upward price movements should private spending suddenly increase. In consequence, every effort should be made to check further accumulations of liquid assets in the form of demand deposits, to induce non-bank investors not only to retain their holdings of Government obligations but to draw upon their demand deposits to purchase additional quantities, and to persuade all holders of liquid assets to restrict expenditures. Liquid assets which, if spent, could exert an explosive upward effect on prices, could, if saved, be used to cushion a future depression.

Treating Symptoms

The problem of inflation cannot be solved by the treatment of symptoms. To keep prices down by the payment of subsidies not only conceals inflationary trends but may actually intensify such trends, if the funds required are obtained from the commercial banking system. In the absence of rationing, wage controls and the allocation of materials, the imposition of price ceilings leads to an inequitable distribution of goods and the diversion of supplies to black markets. Measures taken to treat symptoms become self-perpetuating and divert attention from the basic causes of inflation.

Among the measures necessary to the control of inflation are the encouragement of production and the reduction of unit costs of goods produced. Although such measures are of extreme importance, production by itself affords no basic remedy for current monetary inflation. Even though this is true, production should be encouraged in every way possible, for the smaller the volume of goods produced, the greater is the pressure on prices. Unfortunately, production has been and is being hampered not only by strikes but also by certain Government policies. Reasonable profit margins have been threatened by a wage-price policy which is utterly unrealistic. Increases in wage costs must be reflected in higher prices unless labor productivity is increasing. At the present time, productivity is at a relatively low level and, in consequence, wage increases must be translated into price increases unless profits are to disappear and production to decline.

Efforts should also be made to reduce unit costs of production through increased efficiency not only of labor but also of management. American industry has led the world in technological advances and will, I am sure, make use of the advances of the war period to reduce unit costs and to make goods available to consumers at the lowest possible prices.

Importance of Fiscal, Monetary and Credit Policies

The control of inflation, however, lies mainly in the realm of fiscal, monetary and credit policies. Fiscal policy should be directed towards the attainment not only of a balanced budget in the fiscal year ending June 30, 1947, but even of a surplus in tax revenues. To this end present tax rates should be maintained and all expenditures carefully appraised.

My recommendation that tax rates be maintained does not imply complete endorsement of our present tax system. Many features doubtless should be altered. Changes in tax rates and in the whole tax system, however, should be adopted only after investigation. In the meantime, present tax rates should be continued.

Through careful study, expenditures for the next fiscal year doubtless can and should be reduced below present estimates. The elimination of subsidies will effect a substantial savings. Further savings can be obtained by the postponement of all but the most essential Federal public works expenditures. Long-range programs should be developed in connection with expenditures for defense, agriculture, veterans' pensions and benefits, and international finance.

International Finance

In the field of international finance, a report which was recently issued by the National Advisory Council on International Monetary and Financial Problems goes far in laying down an integrated program of foreign lending on the part of the American Government. An essential part of our foreign lending program is the proposed credit to the United Kingdom. On various occasions I have urged the adoption by the Congress of the Anglo-American Financial Agreement. This provides, as you will recall, for the granting of a line of credit of \$3,750,000,000 to be drawn upon over a five-year period. The British will draw upon the line of credit only to the amount required to finance their passive balance of payments. In return for the credit, we receive very substantial concessions in the removal of foreign exchange controls and in a commitment by the British to support the proposals for freer trade which the United States plans to submit at the forthcoming International Conference on Trade and Employment. While the credit will, by the amount used, increase the expenditures of the American Government, I believe that it can be granted within the scope of a balanced budget. It is my firm conviction that it represents a justifiable investment to preserve free democratic systems. By opening the channels of international trade, it will, in the long run, make more goods available to consumers and in consequence will operate in the direction of lower prices.

Considerable improvement has taken place in the budgetary position of the Government since the first of the year. Tax receipts are higher than estimated, and expenditures are lower. If the budget is balanced in the next fiscal year, the Government will be able to reduce the amount of the debt in the hands of the public from the proceeds of the sale of special issues to Government trust accounts. If a surplus of tax revenues is attained, a net reduction can take place in the total debt.

Debt Management

Closely allied to the budgetary position of the Government is the question of debt management. It has been the traditional policy of the American Government to reduce debts incurred in time of war. The debt incurred in the War of 1812 was entirely paid off, and those incurred in the Civil War and the first World War were substantially reduced. These reductions were made possible by large increases in production and real income. By and large, as the debts were reduced, the bondholders received dollars which had greater purchasing power than the dollars which the Government received when the obligations were initially sold.

Over the long run, there is no doubt but that this country, with its opportunities for growth and for increases in real income, can again effect a substantial reduction in debt. In addition to the long-run problem of debt retirement there are certain short-run problems in the control of inflation which need immediate attention. The most important of these is to reduce holdings of Government obligations by the commercial banking system and thus to bring about a reduction in bank deposits.

Measures taken to reduce holdings of Government obligations by commercial banks are but one phase of the whole problem of debt management to which detailed and careful study should be given and in respect to which a constructive program should be developed. A constructive step preliminary to the development of such a program is the recent unanimous action of the Senate Finance Committee in reducing the public debt limit from \$300 to \$275 billions.

An immediate question in debt management concerns the floating debt (Treasury bills and certificates of indebtedness) which is so largely held by the commercial banking system. For this reason reductions in this type of debt will have an important effect in causing bank deposit liabilities to decline. Reductions in the floating debt can be brought about by use of existing excess war-loan balances, by the use of surplus

[1] Federal Reserve Bulletin, February 1946, p. 123.

cash receipts of the Government and by refunding operations.

The refunding of the floating debt into long-term securities would have the effect of increasing average interest costs on the debt. This is not a result to be deplored, because higher interest costs are less harmful than continued and mounting inflation. The increased interest costs would constitute only a small part of our Federal budget.

An incentive price must be paid for thrift in order that the investing public will buy and hold Government obligations. Thrift is not a quasi-mechanical process which takes place irrespective of the rate of interest paid on Government obligations. The war has destroyed an enormous amount of capital throughout the world. Rates of interest have been held low by the expansion of money and credit. This creates the illusion of an abundance of capital and gives us a false sense of security.

Since February of this year, when the outstanding debt reached a peak of about $280 billions, the debt has been reduced by about $7 billions. This reduction was effected mainly by drawing upon the war-loan accounts, which were built up to a very large total in the Victory Loan drive. In a sense, these operations represent a funding of the floating debt in that the cash received from the sale of long-term obligations during the Victory Loan drive is now being used to retire the short-term debt. While the reduction of the debt from Treasury deposits held by commercial banks is a commendable policy and should be continued, it must be borne in mind that this process does not contract private deposits and, in consequence, does not directly reduce private spending. War-loan accounts are reduced, but these are idle balances having no effect on prices. Private deposits would be reduced if the debt held by commercial banks were retired from the excess of Treasury cash receipts over expenditures and from the sale of long-term obligations to non-commercial bank investors.

Interest Rates

In the control of inflation, fiscal policy must be accompanied by appropriate action on the part of the Federal Reserve banks. During the war the Federal Reserve banks, as I have indicated, have had the responsibility of maintaining a certain level and structure of interest rates. If we are to check inflationary forces, and to avoid totalitarian controls, this responsibility must not be continued indefinitely in time of peace. The determination of interest rates must be left to the competitive forces of the market, and the Federal Reserve banks must be permitted to formulate discount and open-market policies with sole reference to the general welfare.

Time will be required and many preliminary steps will be needed before the Federal Reserve banks can regain control of money market forces. The first of these has already been taken by several of the Federal Reserve banks, with the elimination of the preferential rate on member bank borrowings against Government obligations maturing or callable within a year. Central banking experience clearly demonstrates that commercial banks should not be permitted to borrow at a profit from central banks, and that rates charged by central banks should be above comparable rates of interest in the market. The bank rate should be a penalty rate.

The elimination of the preferential discount rate, though essential and desirable, is but the first of several steps which must be taken in the field of credit policy to check inflationary forces. Another is to relieve the Federal Reserve banks of the responsibility of maintaining, through open-market operations, the present level of short-term rates. Still another measure is the elimination of member bank excess reserves. The ultimate goal of these different policies is to free the Federal Reserve banks from the task of underwriting an arbitrary level and structure of interest rates and thus to enable them to take whatever action may be necessary to check an inflationary expansion of credit.

Check Credit Expansion

Credit expansion must be checked if inflation is to be brought under control. Just as present low rates of interest are the result of huge credit expansion, so will the checking of credit expansion lead, as an inevitable by-product, to higher interest-rate levels. These higher rates are not a goal in themselves but a by-product of measures necessary to preserve the purchasing power of the dollar in which Government obligations are payable.

The measures which I have suggested for the control of inflation represent, as I stated at the outset, the orthodox approach to the problem. Only if we follow the course of action outlined can we maintain the private enterprise system which, in the economic field, is the counterpart of democratic action in the political field. Only if we follow the measures suggested will we deal with the basic causes of inflation. The measures which I have proposed include:

Stimulating production and reducing unit costs of production by appropriate policies on the part of Government and business.

The continued maintenance of tax rates at present levels and a careful review of all expenditures in order that the budget may not only be balanced in the fiscal year ending June 30, 1947 but that a surplus of tax receipts may flow into the Treasury.

The refinancing of the floating debt through the issuance of long-term securities at rates of interest attractive to non-bank investors.

Relieving the Federal Reserve banks of the need to maintain an artificial level and structure of interest rates.

Reducing the volume of Government securities held by commercial banks by use of surplus cash receipts of the Treasury and by refunding operations.

An important byproduct of the proposed policies is that the dollar will command greater confidence. Individual investors will have greater confidence in the dollar as a standard of deferred payments and will purchase fixed-income securities with greater assurance. The average citizen will be more willing to hold his Government obligations and less eager to take refuge in investments regarded as a hedge against inflation. Foreigners will have more confidence in the dollar as an international currency, in terms of which international trade can be financed. The dollar can then justly take its place as the standard currency of the world.

The control of inflation is the responsibility of all groups in the community. Every citizen has the responsibility of protecting legislators against the importunities of vested interests. Consumers should be impressed with the necessity of limiting their purchases to articles urgently needed and of avoiding panic buying. Individual holders of Government securities should be made fully aware of the importance of retaining their holdings and of increasing them to the greatest possible extent. All wage-earners and producers have the responsibility of not exploiting short-run market advantages to the long-run detriment of the community. The Government itself has the responsibility of maintaining the full intrinsic value of its obligations.

As bankers we, too, have a distinct responsibility. We must make sure that bank credit is extended on a sound basis and is extended to facilitate production and not speculation. We must maintain high qualitative standards in the extension of loans. We must encourage our depositors to retain rather than to spend their savings.

The program I have outlined for the control of inflation calls for great courage and self-denial. But courage and self-denial are qualities which have never been found wanting in the character of the American people.

Britain and Loan Delay

(Continued from first page)

during the debate have been left unanswered; both politicians and newspapers have resisted the temptation of stating the British case once more. But there is growing resentment among the public, and the number of those who believe that the Government should never have placed the country into such a humiliating position has increased considerably.

The presence in London of the Prime Minister of Australia and the Deputy Prime Minister of New Zealand has contributed towards the stiffening of British opinion against the loan. Neither of the two Dominions have ratified the Bretton Woods Agreement, nor do they intend to do so until Congress has ratified the Loan Agreement. And both Mr. Chifley and Mr. Nash have taken the opportunity of their London discussions to re-emphasize the desire of their respective Governments to retain Imperial Preference. In a statement to the Press, Mr. Nash frankly admitted his disbelief in the possibility of sufficiently substantial tariff reductions by the United States to compensate New Zealand for sacrificing the advantages derived from Imperial Preference. The mere presence of the representative Dominion statesmen in London has made British opinion more Empire-conscious. The Government can ill afford to ignore this trend of public opinion, and as a result it is likely to take a firm stand at the coming trade conference.

Meanwhile the Government has made all its plans to meet the situation that would arise if the loan should be rejected. Some of the planned measures are likely to be put into operation even before a decision is reached by Congress on the loan, if that decision is delayed till after the summer. There will be in that case drastic cuts in imports of every kind from the United States. The Exchange Control Bill which provides for the removal of restrictions on current trade transactions, in accordance with the Bretton Woods Agreement, will not be proceeded with, and the existing exchange restrictions will be reinforced further. Above all, bilateral trade pacts and discrimination within the sterling area will be extended and reinforced.

Such measures will be considered necessary in case of the postponement of the ratification of the loan agreement, not on account of the present foreign exchange position but in order to safeguard the existing gold reserve, for future indispensable requirements. The present position is somewhat better than was expected at the time of the conclusion of the loan agreement, partly owing to the improvement of the trade balance and partly as a result of the appreciation of Britain's remaining dollar assets through the rise in Wall Street. But the Government is determined that the experience of 1940-41, when the British gold reserve was virtually exhausted, should not recur. To that end every possible step will be taken, in case of further delay in the loan, to slow down the present pace of the decline of the gold reserve.

While some of the more far-reaching measures are not likely to be put into operation unless and until it becomes quite certain that the loan will be refused, to a large degree the Government will act, in case of delay beyond the summer, as if the loan had been refused. In particular, the gold reserve will be sought to be safeguarded by means of more bilateralism in trade arrangements. The agreement with Portugal was the latest in the series of agreements in that direction. While each of them contain provisions for its termination in case of a reversion to multilateral trade, the longer they continue to operate the stronger will be the vested interests opposed to a change.

Pending the loan ratification, the Government wants to avoid further commitments in the direction of multilateralism. Collaboration with the organizations set up under the Bretton Woods plan will be purely formal, and the British delegates will be entirely non-committal at the preliminary trade discussions in September. The Chancellor of the Exchequer recently declared that Britain has not applied for dollar facilities from the International Monetary Fund and she has no intention of doing so.

Hopes continue to be entertained, however, in official quarters that the loan will be ratified before Congress rises. Should Congress pass the loan unamended and with a good majority, it would allay anxieties, but the atmosphere of uncertainty will continue to prevail until the agreement is definitely ratified.

To Be Frankenbush & Co.

Effective May 1st, the firm name of E. R. Schwabach & Co., 25 Broad Street, New York City, members of the New York Stock Exchange, was changed to Frankenbush & Co.

Hustmyre Opens Office

ALEXANDRIA, LA.—William I. Hustmyre is engaging in an investment business from offices in the Guranty Bank Building.

Capitalism in Decade Ahead

(Continued from page 2504)

have to have money. You have to have capital."

And I remember saying this, too: "The word upon which to fix the national mind at this time is simply, outrightly, and frankly, capitalism."

That was true then. And it's true today.

It's more true today than it was then. It's going to have to be more true next year, five years from now and ten years from now if we intend to keep "the American way of life" in a "free enterprise system."

We ought to be proud of the capitalistic system. Competitive capitalism just got through winning the greatest war in all history.

Let's not be modest about it. Neither Britain nor Russia could have survived without the endless flow of goods from this capitalistic American country.

We don't have to be modest about our record in the war, and we don't have to be modest about our record in times of peace. Other systems promise their people the good things of life. We've got them. Other systems say to their peoples: "Give us another five years or another ten years or another fifteen years, and then we will shower abundance upon you."

We've got abundance, but we're not satisfied with that abundance even now. Competitive capitalism can multiply it a thousand times.

Other systems say, "Keep us in power just a little while longer, and we will become the greatest industrial nation on earth."

We in America have got the greatest industrial power on earth.

Other systems strive to perpetuate themselves on promises. We pitch our standard on performance. But promises are pleasant things. They have a pretty ring to them. They have the full fascination that always underlies both talk and daydream of a great tomorrow.

But magnificent promises have some advantage over us at that. They have the glittering promise of the blue print over the finished product, of malleable theory over tough fact. They have all the fascination of a February seed catalog which comes to some city flat dweller who thinks he'd like to be a farmer.

Let me propose in all seriousness that we deprive the ideologies of perpetual promises of whatever advantage they may now enjoy.

A New Dimension to Democratic Capitalism

I propose that we add a dimension of unlimited hopeful promises to our advocacy of our democratic capitalism. We have every right to do so. Reason plus resources, physical, natural and spiritual, give us that right.

Up to now, we've put all the emphasis on the known and measurable past and present achievements. From now on, let's put the accent on the immeasurable possibilities of the future under a new brand of capitalism.

Four years ago, I thought we needed a new creed for capitalism. I still think we do. I think so more now than I did then. The definition of capitalism in the books is as dead as the dinosaurs. It ought to be. Let me recite the standard dictionary definition:

"Capitalism. The concentration of capital. The power or influence of capital as when in the hands of a few."

And that's the definition of capitalism under which American business men have lived too long.

That's why they've talked about it in hushed terms. Capitalism, as defined in the books, fits only the free-booting era in our country, the days of the wasters and the plunderers, the spoilers and the monopolists. And that era's dead and buried.

A New Definition of Capitalism

We need a new definition of capitalism just as much as we need a new dimension in our thinking and in our advocacy of a progressive economic system.

Suppose we try this on for size: "Capitalism is a competitive economic system designed for the enrichment of the many and not to make a few men rich."

We ought to be able to go hell-bent for that kind of capitalism. In fact, what I propose to prove to you is that we've got to go hell-bent for it if we don't want the good things we've got to go to hell.

But if we're going to accept that definition, then we've got to make it truthful in fact as well as theory.

There'll have to be some changes made to meet new conditions, new concepts, new thinking. The old capitalism, despite its sins, built a great **United** States. The new capitalism can build a great **united** people.

The American economic system galvanized into superb unity to win the war, but once the tensions of a common danger were relaxed, the divisive pressures of fear and greed and appetite for special privilege took command. Like bull buffaloes, we'd formed a ring against the wolfpack which attacked our herd, but once we'd beaten off the enemy, we locked horns with each other in domestic struggle.

Must Build a United and Properous Nation

With all the elements of robust economic health at hand—the productive capacity, the know-how, the raw materials, the manpower, the consumer demand, the accumulated capital—we stumble and stagger and squabble. We've got to snap out of it, for only a united people can build a prosperous nation. We've got to snap out of it, for only a united people can make progressive, cooperative capitalism be real in fact as well as in theory.

That calls for a new national fervor for capitalism; a new respect for its accomplishments of the past, but a new fervor for its potentialities. The oldtimer attempting a come-back in the prize ring is entitled to a polite round of applause, but it takes an up and coming prospective champ to bring down the house.

That's why we need a new capitalism. If you want a catch phrase for it, call it neoteric capitalism. That means new. Modern. Young.

Can capitalism of the American variety be adapted to modern technological conditions? Can it stand up against the clamorous challenge of collectivist systems in other parts of the world and against anti-democratic propaganda at home? In an epoch that tends toward ever larger economic groupings—toward huge corporations, great labor unions, powerful farm organizations, expanding Government agencies—can we retain and fortify our cherished individual freedoms and our free institutions?

Can Retain Our Free Institutions

I say we can. I say we can not only retain and fortify them, but that we can make them flourish and flower as they never have before.

It's going to take some doing. It's going to take energy. Well, we've got the energy. We've wasted enough of it already in industrial strife. If we had spent those millions of units of wasted man and mental energy in production and productive thinking instead of pulling and pushing each other around, there'd be fewer shortages today.

If it's true that life begins at 40, let me say I hope a new capitalism will be born in America in the 1940's beginning right now.

The old capitalism was regarded as a wholly automatic system—a kind of perpetual motion machine powered by the profit motive. That conception is too primitive for modern realities. The machine is still the most effective ever developed, but the time has come to revise it and repair it to meet the new strains of a more complex era.

Keyword of New Capitalism

The whole process of our thinking must be raised from the automatic plane to a conscious level where responsibility to the public interest is the key word. It is all right for us to defend the status quo, and we are amply justified in that defense by our achievements and potentials. But we must quit looking at the status quo as a finishing line and learn to treat it as a starting line for the new capitalism now emerging. We have reached a frontier in national development where we must begin to shape history instead of letting history shape us.

In effect today, we are called on to choose between the old and the new capitalist society. The old holds that it is a closed and perfect system of life resting on congealed and untouchable dogmas. It is loaded down with petrified prejudices—against organized labor, against Government activity, against community planning. The new view, which I earnestly recommend, holds that capitalism is a human institution, vibrant and evolutionary, capable constantly of adjusting itself to new conditions. There is nothing eternal, nothing sacro-sanct about it. Unless it justifies itself by works instead of words, it must go with the wind of change.

Let me put the matter bluntly. The idyllic days are dead. Nostalgic thinking about the "good old days" won't bring them back. Life goes forward, always forward. The trouble is that some people are moving forward all right, but they're looking backward. They're like that lengendary bird who didn't care where he was flying but liked to see where he had been.

Under the old or standpat conception of capitalism, people seem merely the inert tools of the system. Under the new, or progressive conception, the system is a tool in the hands of the people. It is to be used, but not abused, for the general welfare and the good of all.

Under progressive capitalism, the individual is a free agent, but not a free-booter. He has the right to choose, the right to make his own decisions, but he does not have the right to ride roughshod over the rights of others. What I'm saying is that man is more important than the machine or the products of the machine. The primacy and dignity of man come first. That's the American concept. It's the newer concept. In contrast, is the older, or the totalitarian concept of the primacy of the state.

Defects of Russia's Economy

That's the difference between Russia's economy and the American economy. Let me state this difference simply. In a democratic capitalism, the individual can jump from job to job if it suits his pleasure. If he gets in Dutch with his boss, he can go around the corner and find a new boss. In a totalitarian state, the individual is told where he must work. There is only one boss. It's the state itself. If he gets in Dutch with his boss, he gets sent to the salt mines.

It is no accident that capitalism has flourished in America. Americans have always demanded freedom. And freedom and progressive capitalism are synonymous.

The new capitalism, I repeat, recognizes the supremacy of the individual. But it must also recognize that our modern mass production society has caused individuals to band together in economic groups for their material and mental well-being. Today, individuals belong to the union, the corporation, the farm organization, the cooperative, the trade association, the professional society. Americans have transferred certain of their freedoms to these voluntary associations so that they can act and work more effectively in our modern mass production society. This development of group association has been evolutionary as America grew. Group action is an economic fact which our new capitalism must recognize.

Pressure Groups

These modern economic aggregations are sometimes called "pressure groups." And that's what they are. They are here and they are going to stay. What's more they are part of our kind of living. In truth, group action is America's democratic answer to modern industrial society.

We must learn to understand that these voluntary but powerful associations are the core of America's new capitalism. But we can't afford to let them run hog wild. Unless they are regulated they become more powerful than the state itself. Unless they are regulated our new capitalism cannot prosper.

They need to be regulated. The ideal is a maximum of self-regulation and a minimum of Government regulation. But they've got to be regulated. We've got to welcome sensible regulations of these groups by Government. And by regulation I mean the setting up of fair rules of the game.

You can't regulate one group today and not another. Business men want unions regulated. Union leaders want more regulation of business. The farmer wants them both regulated. You can't tell one group to divulge where and how it gets its money and where and how it spends it unless you tell that to all groups.

You can't insist that one group be governed by democratic principles and not the others. You can't demand that one group be responsible and not the others. We used to talk about the evils of special privilege for the individual. Now, it is just as important that no one group should enjoy special privilege.

Up to date, we've had a black market in irresponsible power by some groups because we haven't understood that this age of group action requires fair rules of the game for all groups.

Competition and Equal Opportunity

And our new capitalism calls for another basic ingredient—equal opportunity for all. But there can be no equal opportunity without fair competition. The old capitalism was monopolistic; it stifled competition and thereby throttled opportunity for the little fellow.

The new capitalism must encourage competition and thereby open up opportunity.

Competition, as I mean it, is more than competition between two gas stations on the same street. It is competition which provides opportunity for ideas, for leadership, for thinking. It is competition which sets inventive minds to work; it is competition which puts one community on its mettle to outdo its rival in municipal improvements. It is competition which holds prices at reasonable levels. It is competition which makes for better living.

Competition is the carat mark on the real gold of golden opportunity. Competition as we here in America should know it, should stimulate but never stymie opportunity. Competition brings out the best in all of us for the best of all of us.

Then how do we go about building this new capitalism—this capitalism which recognizes the supremacy of the individual—this capitalism which calls for responsibility of group action—this capitalism which glorifies opportunity?

Dispense with Congealed Capitalism

I say to you business men that you have the key.

If you're as wise as I think you are, you will use it to unlock the door between the congealed capitalism of yesterday and the new capitalism of tomorrow.

If you go along with me in my concept of a new capitalism, you'll agree with me that it must include a much, much greater diffusion of the good things of life. It must mean more people owning more things. It must mean more machines, but more important, more people who can afford the products of those machines. It must truly be a conception where we look to the enrichment of the many and not to the goal of making a few men rich. It must mean high moral standards as well as high living standards.

We say we are for a greater middle-class economy, which means having fewer people at the bottom, fewer at the top, and more in the middle.

Then what's wrong with a decent minimum wage? It's one way of lifting the standards of those at the bottom, isn't it? It's one way of moving more people to the middle, isn't it? I truly believe that a decent minimum wage is one means to multiply the most precious asset of America—it's middle class.

We say we regret to see slack times and seasonal unemployment? We say we're for steadier jobs? Then what's wrong with the annual wage? That's what it means, doesn't it? Steady jobs.

We say we really want to see more diffusion of the good things of the world?

Then what's wrong with profit sharing? What's wrong with giving our workers a real incentive to produce more for their own profit—and for yours? More people buying more things so you can make more things which more and more people can buy? That's what it would mean, wouldn't it?

We're all for these objectives. But are they pious or are they real? If they're real, what about the methods?

We all say we want better homes for everybody; that we want better educational opportunities for everybody; that we want higher health standards; that we want a better national diet; that we want security for all in their declining years; that we want all the things which spell real prosperity for all the people.

If we truly want them, there must be ways found to bring them about. I don't say the means that I've suggested are cure-alls. I don't say they'll work in all cases. I don't propose these things as magic capsules. I do say they are things we business men must think about if we are to see a future for ourselves in terms of a future for others.

We must never forget that we live in a democracy and the majority rules. The majority must feel that they share in the profits of the profit system. Otherwise they may decide some day that they want another system. The more and more capitalists there are, the safer your stake in capitalism is. The goal of our new capitalism is every man a capitalist.

A New Capitalism or None

Yes, gentlemen, a decisive decade lies ahead. To me, the choice for us is a new capitalism or none at all.

If that sounds extreme, look about you and see what's happened. The old capitalism has virtually disappeared abroad. It was liquidated in Russia. It is dying on the continent of Europe. It gasps for breath in the British Isles. What has replaced it? A new capitalism, guaranteeing the freedoms of the old, but garnished with opportunity for the man as against privilege for the few? No, not a new capitalism. Communism and Socialism have taken its place.

My four year course of education in the presidency of the Chamber of Commerce has taken me on many travels. It took me around the world, where I saw the death of capitalism with my own eyes. It has taken me endless times across this country of our own. It has given me the chance to talk to thousands of people, to listen to them as well. I have talked to them from public platforms. I have talked with them across tables. I have listened to them in their offices and at their lathes. I said at the outset tonight that I have learned a lot.

And, gentlemen, I have learned this—and I say it to you in deadly seriousness: We in business must liberalize or face the threat of economic liquidation. The law of life applies: adapt or die. We can't run away from destiny down some secluded rabbit trail.

Our destiny is to create the new capitalism. Does the word new frighten us? It shouldn't. Isn't America the home of the new? The rest of the world has marvelled at America's passion for the new.

Yesterday's models are today's candidates for the junk yard. Tomorrow's model is already on the drawing board. Today's model is already second hand. We don't repair or repatch the worn out machine. We don't hesitate to scrap worn out tools. We shouldn't hesitate to scrap worn out social concepts.

No, the word "new" has never frightened us.

America created a new form of Government. America created a new form of mass production. America can create a new capitalism.

Business has the key to unlock the door to this new capitalism. We can't duck this one. Ours is the responsibility. Ours is the opportunity. Ours is the decision.

How to Put Federal Finances On Sounder Basis

(Continued from page 2503)

policy" is diametrically opposed to a "sound-money" program. This is true whether one defines "sound-money" as money redeemable in a fixed weight of precious metal, or whether one considers money "sound" only if its average purchasing power is kept approximately constant year after year. The only way for a government to keep interest rates continuously low is for it or the banks to stand ready at all times to lend money at low rates. The case has yet to be recorded in which a government has by taxation obtained the money needed to maintain such a policy, for the party in power is almost certain to regard such a tax program as politically inexpedient. In practice, therefore, the government seeking to keep interest rates low must either print the money which it needs or obtain the funds by permitting the banks to expand their deposit volumes. Either one of these procedures tends to cause the price level to rise—a result in conflict with the "sound-money" principle of preventing depreciation in the value of the currency. Moreover any long-continued expansion of bank deposits based upon precious-metal reserves will cause such deposits to reach the maximum permissible legal rates. Once such limits are reached, the government can no longer successfully keep the interest rates low unless it lowers the legal reserve rates—an obviously unsound financial expedient. Clearly then an "easy-money policy" is entirely incompatible with a "sound-money" program.

Our present fiscal authorities probably know that this is true and would prefer restoring the nation to a "sound-money" basis to continuing an "easy-money" policy. However, from the standpoint of political expediency, inflation has two marked advantages: first, it keeps nominal debt-carrying charges low; second, it camouflages so effectively the fact that the real burden of the debt is being cast upon the possessors of money or obligations payable in money that these victims do not, in most cases, realize that they are being systematically robbed. Moreover, the Treasury officials are appalled by the prospect of having to raise the sum of money which will be required to pay the interest charges on the debt, if interest rates are allowed to rise to the level necessary to induce individuals to save the amounts demanded by government and industry. They note that, in 1933,—the last year in which, in the United States there was any semblance of a free market for capital,—the average yield on Treasury bonds was 3.31%, and that this was far below the 1920 peak of 5.32%.[2] They realize, therefore, that with a free market, a 3.50% basis would be as low as one could expect and that, if the Government abandoned its "easy-money policy"—the present $277 billion debt would probably entail a carrying charge of some $9.7 billions. Since the debt is a domestic one, interest payments are balanced by interest receipts, hence do not directly lessen the national income. However, the transfer of $9.7 billions from taxpayers to bondholders constitutes a fiscal problem of the first magnitude—a problem embarrassing to any political party, hence it is not surprising to find the Federal authorities searching for easy ways out.

The Freezing of Bank-Held Government Bonds

One recently-proposed device is to convert part or all of the bank-held Federal securities into required reserves bearing very low interest charges. Such a procedure may, perhaps, be justified on the ground that the reason for paying the banks to manufacture for the Government new spending power was the baseless belief that creating bank deposits out of thin air was less inflationary and less reprehensible than printing paper money. It may, therefore, be argued that since the banks have been drawing pay for an imaginary service, there can be no injustice if payments are greatly reduced or even stopped entirely as soon as present contracts run out.

However, this plan, if adopted, will cut off but a minor fraction of the potential future tax burden occasioned by our huge Federal debt. Requiring the banks to hold a $40 billion reserve of 1% bonds might cut potential tax payments by 2½% of that amount—or $1 billion—little more than a tenth of the prospective interest burden. The problem of how to distribute the large potential interest burden equitably upon the citizens of the nation still remains.

If the interest charges were met by a proportional tax on all incomes, the rate needed for the the purpose would probably not exceed 7%. However, since the lower income classes have the most votes, political expediency is likely to lead to placing the burden mainly upon the wealthier classes—the classes which have hitherto furnished most of the capital used in financing large enterprises. The prospective interest charge is likely to be confiscatory so far as individual incomes of $10,000 or larger are concerned. If confiscatory taxes on such incomes are continued, the result will be either to curtail economic progress or to force government to finance industrial expansion. The latter procedure leads, of course, to the substitution of socialism for free enterprise.

Perhaps the simplest way to prevent this untoward result is to adopt the proposed Constitutional amendment limiting income and inheritance taxes to a 25% maximum. Memorials to Congress urging the enactment of this amendment have already been voted by the legislatures of about one-third of the states.

A 10% Sales Tax

Whether or not this amendment is adopted, a socially logical device for meeting the interest charges on the Federal debt would be to levy a tax of say 10% on all sales made to retailers by manufacturers, processors, or wholesalers. The proceeds of the tax should all be assigned to payments of the interest charges or the principal of the Federal debt.

The measures thus far mentioned have no tendency to solve what is one of the most vital problems connected with the Federal debt—namely control of the price level. For several years, the Federal Government has been engaged in an obviously losing fight to keep prices from rising above their 1941 levels. The ignominious failure of this effort is explained by the vast currency inflation that has been going on. At the end of 1938, the nation managed to get along with $36 billions of money and demand deposits combined. In January, 1946, this total had swollen to $127 billions —an increase of 252%. Although, fortunately, production has risen far above the 1938 levels, its rise has not been large enough to offset more than a fraction of the inflationary flood. This flood threatens to overwhelm all owners of bonds, mortgages, life insurance policies, bank deposits, annuities, and other obligations payable in dollars. Therefore, the nation's No. 1 financial problem is how to prevent the filching away of the savings of the thrifty classes of the population.

An Effective Course of Action

The only course of action which is likely to prove effective in protecting these savings is for the Government to pay off as rapidly as feasible a large fraction of the debt to the banks, and thus reduce by a like amount the volume of demand bank deposits now outstanding in the hands of the public and available for the purchase of goods. Were this done promptly, the upward pressure on prices would disappear, and there would no longer be the slightest legitimate excuse for governmental regulation of prices.

Granted that a reduction in bank deposit volume is highly desirable, the next question which arises is how large a volume of bank deposit retirement would be required to bring prices back to a reasonable level. It is, of course, impossible to answer this question precisely. However, a clue to the solution is offered by the following facts. Because production was increasing so rapidly, inflation did not cause the upward pressure on prices to become severe until employment reached a peak in 1943. At this time, the volume of bank deposits was around $60 billions. Now the corresponding total is more than $100 billions. Since experience shows that the supply of "pocketbook money" automatically tends to parallel the supply of demand deposits, it seems probable that, if production were kept at a high level, the retirement of some $40 billions of demand deposits would cause prices to settle at a level which would not be grossly unfair to the holders of obligations payable in terms of dollars.

Retire $40 Billions of Bank Deposits

To retire the required $40 billions of deposits, is, of course, anything but a simple matter. Prof. Irving Fisher suggests the freezing and compulsory investment of a uniform fraction of each individual's demand deposit. If legal obstacles should not prove to be insurmountable, such a plan would doubtless be effective. The Government might require each depositor, on a given day, to invest a specified percentage of his checking account in a special issue of Federal bonds of a type not usable as collateral for bank loans and not subject to ownership by commercial banks. Depositors desirous of avoiding such investment would, of course, use the time before the given date to exchange their bank balances for other property. As the conversion date approached, sellers of property would adjust their selling prices to take account of the fact that they would be compelled to invest something like 40% of the proceeds in Government bonds. Therefore, no individual would be penalized unduly by such a forced conversion.

An alternative plan for getting rid of the unwanted $40 billions of demand deposits (which plan is less drastic and more orthodox, but which is also less certain to be effective) is for the Government to raise funds from private individuals and non-banking concerns and use the proceeds to purchase Federal obligations held by banks. To accomplish this end, taxes ought to be held temporarily at approximately wartime levels, Federal expenses ought to be sharply curtailed and the resulting surplus ought to be used to pay off notes and bonds held by banks. The remainder of the funds required to retire the $40 billions of deposits should be obtained by selling to private investors bonds not usable as collateral for loans at commercial banks. To float a bond issue large enough to accomplish the end sought would, of course, necessitate making the terms attractive to individuals, insurance companies, and savings banks.

As the Government liquidated its indebtedness to the commercial banks, their reserve requirements should be tightened up sufficiently to prevent them from substituting private securities for the Government bonds which were paid off.

Higher interest rates would, of course, be burdensome to taxpayers, but the importance of preventing the confiscation of the savings of the thrifty is so great that the action nevertheless is justified. Moreover, most taxpayers would find their higher taxes offset at least in part by the protection of their investments.

After safeguarding the savings of the thrifty by the procedure described above, the Treasury ought next to take advantage of favorable opportunities to convert the major part of the debt into callable long-term bonds, and thereafter proceed to retire these bonds rather rapidly from the proceeds of taxes. The debt was incurred in a few years. It ought not to be allowed to hang on the nation's back like an Old Man of the Sea for decade after decade. The debt ought, indeed, to be wiped out before the next great emergency arises.

[2] *Statistical Abstract of the U. S.* 1938, p. 295.

Capitalism in Decade Ahead

(Continued from page 2504)

have to have money. You have to have capital."

And I remember saying this, too: "The word upon which to fix the national mind at this time is simply, outrightly, and frankly, capitalism."

That was true then. And it's true today.

It's more true today than it was then. It's going to have to be more true next year, five years from now and ten years from now if we intend to keep "the American way of life" in a "free enterprise system."

We ought to be proud of the capitalistic system. Competitive capitalism just got through winning the greatest war in all history.

Let's not be modest about it. Neither Britain nor Russia could have survived without the endless flow of goods from this capitalistic American country.

We don't have to be modest about our record in the war, and we don't have to be modest about our record in times of peace. Other systems promise their people the good things of life. We've got them. Other systems say to their peoples: "Give us another five years or another ten years or another fifteen years, and then we will shower abundance upon you."

We've got abundance, but we're not satisfied with that abundance even now. Competitive capitalism can multiply it a thousand times.

Other systems say, "Keep us in power just a little while longer, and we will become the greatest industrial nation on earth."

We in America have got the greatest industrial power on earth.

Other systems strive to perpetuate themselves on promises. We pitch our standard on performance. But promises are pleasant things. They have a pretty ring to them. They have the full fascination that always underlies both talk and daydream of a great tomorrow.

But magnificent promises have some advantage over us at that. They have the glittering promise of the blue print over the finished product, of malleable theory over tough fact. They have all the fascination of a February seed catalog which comes to some city flat dweller who thinks he'd like to be a farmer.

Let me propose in all seriousness that we deprive the ideologies of perpetual promises of whatever advantage they may now enjoy.

A New Dimension to Democratic Capitalism

I propose that we add a dimension of unlimited hopeful promises to our advocacy of our democratic capitalism. We have every right to do so. Reason plus resources, physical, natural and spiritual, give us that right.

Up to now, we've put all the emphasis on the known and measurable past and present achievements. From now on, let's put the accent on the immeasurable possibilities of the future under a new brand of capitalism.

Four years ago, I thought we needed a new creed for capitalism. I still think we do. I think so more now than I did then. The definition of capitalism in the books is as dead as the dinosaurs. It ought to be. Let me recite the standard dictionary definition:

"Capitalism. The concentration of capital. The power or influence of capital as when in the hands of a few."

And that's the definition of capitalism under which American business men have lived too long.

That's why they've talked about it in hushed terms. Capitalism, as defined in the books, fits only the free-booting era in our country, the days of the wasters and the plunderers, the spoilers and the monopolists. And that era's dead and buried.

A New Definition of Capitalism

We need a new definition of capitalism just as much as we need a new dimension in our thinking and in our advocacy of a progressive economic system.

Suppose we try this on for size: "Capitalism is a competitive economic system designed for the enrichment of the many and not to make a few men rich."

We ought to be able to go hell-bent for that kind of capitalism. In fact, what I propose to prove to you is that we've got to go hell-bent for it if we don't want the good things we've got to go to hell.

But if we're going to accept that definition, then we've got to make it truthful in fact as well as theory.

There'll have to be some changes made to meet new conditions, new concepts, new thinking. The old capitalism, despite its sins, built a great **United** States. The new capitalism can build a great **united** people.

The American economic system galvanized into superb unity to win the war, but once the tensions of a common danger were relaxed, the divisive pressures of fear and greed and appetite for special privilege took command. Like bull buffaloes, we'd formed a ring against the wolfpack which attacked our herd, but once we'd beaten off the enemy, we locked horns with each other in domestic struggle.

Must Build a United and Properous Nation

With all the elements of robust economic health at hand—the productive capacity, the know-how, the raw materials, the manpower, the consumer demand, the accumulated capital—we stumble and stagger and squabble. We've got to snap out of it, for only a united people can build a prosperous nation. We've got to snap out of it, for only a united people can make progressive, cooperative capitalism be real in fact as well as in theory.

That calls for a new national fervor for capitalism; a new respect for its accomplishments of the past, but a new fervor for its potentialities. The oldtimer attempting a come-back in the prize ring is entitled to a polite round of applause, but it takes an up and coming prospective champ to bring down the house.

That's why we need a new capitalism. If you want a catch phrase for it, call it neoteric capitalism. That means new. Modern. Young.

Can capitalism of the American variety be adapted to modern technological conditions? Can it stand up against the clamorous challenge of collectivist systems in other parts of the world and against anti-democratic propaganda at home? In an epoch that tends toward ever larger economic groupings—toward huge corporations, great labor unions, powerful farm organizations, expanding Government agencies—can we retain and fortify our cherished individual freedoms and our free institutions?

Can Retain Our Free Institutions

I say we can. I say we can not only retain and fortify them, but that we can make them flourish and flower as they never have before.

It's going to take some doing. It's going to take energy. Well, we've got the energy. We've wasted enough of it already in industrial strife. If we had spent those millions of units of wasted man and mental energy in production and productive thinking instead of pulling and pushing each other around, there'd be fewer shortages today.

If it's true that life begins at 40, let me say I hope a new capitalism will be born in America in the 1940's beginning right now.

The old capitalism was regarded as a wholly automatic system—a kind of perpetual motion machine powered by the profit motive. That conception is too primitive for modern realities. The machine is still the most effective ever developed, but the time has come to revise it and repair it to meet the new strains of a more complex era.

Keyword of New Capitalism

The whole process of our thinking must be raised from the automatic plane to a conscious level where responsibility to the public interest is the key word. It is all right for us to defend the status quo, and we are amply justified in that defense by our achievements and potentials. But we must quit looking at the status quo as a finishing line and learn to treat it as a starting line for the new capitalism now emerging. We have reached a frontier in national development where we must begin to shape history instead of letting history shape us.

In effect today, we are called on to choose between the old and the new capitalist society. The old holds that it is a closed and perfect system of life resting on congealed and untouchable dogmas. It is loaded down with petrified prejudices—against organized labor, against Government activity, against community planning. The new view, which I earnestly recommend, holds that capitalism is a human institution, vibrant and evolutionary, capable constantly of adjusting itself to new conditions. There is nothing eternal, nothing sacro-sanct about it. Unless it justifies itself by works instead of words, it must go with the wind of change.

Let me put the matter bluntly. The idyllic days are dead. Nostalgic thinking about the "good old days" won't bring them back. Life goes forward, always forward. The trouble is that some people are moving forward all right, but they're looking backward. They're like that lengendary bird who didn't care where he was flying but liked to see where he had been.

Under the old or standpat conception of capitalism, people seem merely the inert tools of the system. Under the new, or progressive conception, the system is a tool in the hands of the people. It is to be used, but not abused, for the general welfare and the good of all.

Under progressive capitalism, the individual is a free agent, but not a free-booter. He has the right to choose, the right to make his own decisions, but he does not have the right to ride roughshod over the rights of others. What I'm saying is that man is more important than the machine or the products of the machine. The primacy and dignity of man come first. That's the American concept. It's the newer concept. In contrast, is the older, or the totalitarian concept of the primacy of the state.

Defects of Russia's Economy

That's the difference between Russia's economy and the American economy. Let me state this difference simply. In a democratic capitalism, the individual can jump from job to job if it suits his pleasure. If he gets in Dutch with his boss, he can go around the corner and find a new boss. In a totalitarian state, the individual is told where he must work. There is only one boss. It's the state itself. If he gets in Dutch with his boss, he gets sent to the salt mines.

It is no accident that capitalism has flourished in America. Americans have always demanded freedom. And freedom and progressive capitalism are synonymous.

The new capitalism, I repeat, recognizes the supremacy of the individual. But it must also recognize that our modern mass production society has caused individuals to band together in economic groups for their material and mental well-being. Today, individuals belong to the union, the corporation, the farm organization, the cooperative, the trade association, the professional society. Americans have transferred certain of their freedoms to these voluntary associations so that they can act and work more effectively in our modern mass production society. This development of group association has been evolutionary as America grew. Group action is an economic fact which our new capitalism must recognize.

Pressure Groups

These modern economic aggregations are sometimes called "pressure groups." And that's what they are. They are here and they are going to stay. What's more they are part of our kind of living. In truth, group action is America's democratic answer to modern industrial society.

We must learn to understand that these voluntary but powerful associations are the core of America's new capitalism. But we can't afford to let them run hog wild. Unless they are regulated they become more powerful than the state itself. Unless they are regulated our new capitalism cannot prosper.

They need to be regulated. The ideal is a maximum of self-regulation and a minimum of Government regulation. But they've got to be regulated. We've got to welcome sensible regulations of these groups by Government. And by regulation I mean the setting up of fair rules of the game.

You can't regulate one group today and not another. Business men want unions regulated. Union leaders want more regulation of business. The farmer wants them both regulated. You can't tell one group to divulge where and how it gets its money and where and how it spends it unless you tell that to all groups.

You can't insist that one group be governed by democratic principles and not the others. You can't demand that one group be responsible and not the others. We used to talk about the evils of special privilege for the individual. Now, it is just as important that no one group should enjoy special privilege.

Up to date, we've had a black market in irresponsible power by some groups because we haven't understood that this age of group action requires fair rules of the game for all groups.

Competition and Equal Opportunity

And our new capitalism calls for another basic ingredient—equal opportunity for all. But there can be no equal opportunity without fair competition. The old capitalism was monopolistic; it stifled competition and thereby throttled opportunity for the little fellow.

The new capitalism must encourage competition and thereby open up opportunity.

Competition, as I mean it, is more than competition between two gas stations on the same street. It is competition which provides opportunity for ideas, for leadership, for thinking. It is competition which sets inventive minds to work; it is competition which puts one community on its mettle to outdo its rival in municipal improvements. It is competition which holds prices at reasonable levels. It is competition which makes for better living.

Competition is the carat mark on the real gold of golden opportunity. Competition as we here in America should know it, should stimulate but never stymie opportunity. Competition brings out the best in all of us for the best of all of us.

Then how do we go about building this new capitalism—this capitalism which recognizes the supremacy of the individual—this capitalism which calls for responsibility of group action—this capitalism which glorifies opportunity?

Dispense with Congealed Capitalism

I say to you business men that you have the key.

If you're as wise as I think you are, you will use it to unlock the door between the congealed capitalism of yesterday and the new capitalism of tomorrow.

If you go along with me in my concept of a new capitalism, you'll agree with me that it must include a much, much greater diffusion of the good things of life. It must mean more people owning more things. It must mean more machines, but more important, more people who can afford the products of those machines. It must truly be a conception where we look to the enrichment of the many and not to the goal of making a few men rich. It must mean high moral standards as well as high living standards.

We say we are for a greater middle-class economy, which means having fewer people at the bottom, fewer at the top, and more in the middle.

Then what's wrong with a decent minimum wage? It's one way of lifting the standards of those at the bottom, isn't it? It's one way of moving more people to the middle, isn't it? I truly believe that a decent minimum wage is one means to multiply the most precious asset of America—it's middle class.

We say we regret to see slack times and seasonal unemployment? We say we're for steadier jobs? Then what's wrong with the annual wage? That's what it means, doesn't it? Steady jobs.

We say we really want to see more diffusion of the good things of the world?

Then what's wrong with profit sharing? What's wrong with giving our workers a real incentive to produce more for their own profit—and for yours? More people buying more things so you can make more things which more and more people can buy? That's what it would mean, wouldn't it?

We're all for these objectives. But are they pious or are they real? If they're real, what about the methods?

We all say we want better homes for everybody; that we want better educational opportunities for everybody; that we want higher health standards; that we want a better national diet; that we want security for all in their declining years; that we want all the things which spell real prosperity for all the people.

If we truly want them, there must be ways found to bring them about. I don't say the means that I've suggested are cure-alls. I don't say they'll work in all cases. I don't propose these things as magic capsules. I do say they are things we business men must think about if we are to see a future for ourselves in terms of a future for others.

We must never forget that we live in a democracy and the majority rules. The majority must feel that they share in the profits of the profit system. Otherwise they may decide some day that they want another system. The more and more capitalists there are, the safer your stake in capitalism is. The goal of our new capitalism is every man a capitalist.

A New Capitalism or None

Yes, gentlemen, a decisive decade lies ahead. To me, the choice for us is a new capitalism or none at all.

If that sounds extreme, look about you and see what's happened. The old capitalism has virtually disappeared abroad. It was liquidated in Russia. It is dying on the continent of Europe. It gasps for breath in the British Isles. What has replaced it? A new capitalism, guaranteeing the freedoms of the old, but garnished with opportunity for the man as against privilege for the few? No, not a new capitalism. Communism and Socialism have taken its place.

My four year course of education in the presidency of the Chamber of Commerce has taken me on many travels. It took me around the world, where I saw the death of capitalism with my own eyes. It has taken me endless times across this country of our own. It has given me the chance to talk to thousands of people, to listen to them as well. I have talked to them from public platforms. I have talked with them across tables. I have listened to them in their offices and at their lathes. I said at the outset tonight that I have learned a lot.

And, gentlemen, I have learned this—and I say it to you in deadly seriousness: We in business must liberalize or face the threat of economic liquidation. The law of life applies: adapt or die. We can't run away from destiny down some secluded rabbit trail.

Our destiny is to create the new capitalism. Does the word new frighten us? It shouldn't. Isn't America the home of the new? The rest of the world has marvelled at America's passion for the new.

Yesterday's models are today's candidates for the junk yard. Tomorrow's model is already on the drawing board. Today's model is already second hand. We don't repair or repatch the worn out machine. We don't hesitate to scrap worn out tools. We shouldn't hesitate to scrap worn out social concepts.

No, the word "new" has never frightened us.

America created a new form of Government. America created a new form of mass production. America can create a new capitalism.

Business has the key to unlock the door to this new capitalism. We can't duck this one. Ours is the responsibility. Ours is the opportunity. Ours is the decision.

How to Put Federal Finances On Sounder Basis

(Continued from page 2503)

policy" is diametrically opposed to a "sound-money" program. This is true whether one defines "sound-money" as money redeemable in a fixed weight of precious metal, or whether one considers money "sound" only if its average purchasing power is kept approximately constant year after year. The only way for a government to keep interest rates continuously low is for it or the banks to stand ready at all times to lend money at low rates. The case has yet to be recorded in which a government has by taxation obtained the money needed to maintain such a policy, for the party in power is almost certain to regard such a tax program as politically inexpedient. In practice, therefore, the government seeking to keep interest rates low must either print the money which it needs or obtain the funds by permitting the banks to expand their deposit volumes. Either one of these procedures tends to cause the price level to rise—a result in conflict with the "sound-money" principle of preventing depreciation in the value of the currency. Moreover any long-continued expansion of bank deposits based upon precious-metal reserves will cause such deposits to reach the maximum permissible legal rates. Once such limits are reached, the government can no longer successfully keep the interest rates low unless it lowers the legal reserve rates—an obviously unsound financial expedient. Clearly then an "easy-money policy" is entirely incompatible with a "sound-money" program.

Our present fiscal authorities probably know that this is true and would prefer restoring the nation to a "sound-money" basis to continuing an "easy-money" policy. However, from the standpoint of political expediency, inflation has two marked advantages: first, it keeps nominal debt-carrying charges low; second, it camouflages so effectively the fact that the real burden of the debt is being cast upon the possessors of money or obligations payable in money that these victims do not, in most cases, realize that they are being systematically robbed. Moreover, the Treasury officials are appalled by the prospect of having to raise the sum of money which will be required to pay the interest charges on the debt, if interest rates are allowed to rise to the level necessary to induce individuals to save the amounts demanded by government and industry. They note that, in 1933,—the last year in which, in the United States there was any semblance of a free market for capital,—the average yield on Treasury bonds was 3.31%, and that this was far below the 1920 peak of 5.32%.[2] They realize, therefore, that with a free market, a 3.50% basis would be as low as one could expect and that, if the Government abandoned its "easy-money policy"—the present $277 billion debt would probably entail a carrying charge of some $9.7 billions. Since the debt is a domestic one, interest payments are balanced by interest receipts, hence do not directly lessen the national income. However, the transfer of $9.7 billions from taxpayers to bondholders constitutes a fiscal problem of the first magnitude—a problem embarrassing to any political party, hence it is not surprising to find the Federal authorities searching for easy ways out.

The Freezing of Bank-Held Government Bonds

One recently-proposed device is to convert part or all of the bank-held Federal securities into required reserves bearing very low interest charges. Such a procedure may, perhaps, be justified on the ground that the reason for paying the banks to manufacture for the Government new spending power was the baseless belief that creating bank deposits out of thin air was less inflationary and less reprehensible than printing paper money. It may, therefore, be argued that since the banks have been drawing pay for an imaginary service, there can be no injustice if payments are greatly reduced or even stopped entirely as soon as present contracts run out.

However, this plan, if adopted, will cut off but a minor fraction of the potential future tax burden occasioned by our huge Federal debt. Requiring the banks to hold a $40 billion reserve of 1% bonds might cut potential tax payments by 2½% of that amount—or $1 billion—little more than a tenth of the prospective interest burden. The problem of how to distribute the large potential interest burden equitably upon the citizens of the nation still remains.

2 *Statistical Abstract of the U. S.* 1938, p. 295.

If the interest charges were met by a proportional tax on all incomes, the rate needed for the the purpose would probably not exceed 7%. However, since the lower income classes have the most votes, political expediency is likely to lead to placing the burden mainly upon the wealthier classes—the classes which have hitherto furnished most of the capital used in financing large enterprises. The prospective interest charge is likely to be confiscatory so far as individual incomes of $10,000 or larger are concerned. If confiscatory taxes on such incomes are continued, the result will be either to curtail economic progress or to force government to finance industrial expansion. The latter procedure leads, of course, to the substitution of socialism for free enterprise.

Perhaps the simplest way to prevent this untoward result is to adopt the proposed Constitutional amendment limiting income and inheritance taxes to a 25% maximum. Memorials to Congress urging the enactment of this amendment have already been voted by the legislatures of about one-third of the states.

A 10% Sales Tax

Whether or not this amendment is adopted, a socially logical device for meeting the interest charges on the Federal debt would be to levy a tax of say 10% on all sales made to retailers by manufacturers, processors, or wholesalers. The proceeds of the tax should all be assigned to payments of the interest charges or the principal of the Federal debt.

The measures thus far mentioned have no tendency to solve what is one of the most vital problems connected with the Federal debt—namely control of the price level. For several years, the Federal Government has been engaged in an obviously losing fight to keep prices from rising above their 1941 levels. The ignominious failure of this effort is explained by the vast currency inflation that has been going on. At the end of 1938, the nation managed to get along with $36 billions of money and demand deposits combined. In January, 1946, this total had swollen to $127 billions —an increase of 252%. Although, fortunately, production has risen far above the 1938 levels, its rise has not been large enough to offset more than a fraction of the inflationary flood. This flood threatens to overwhelm all owners of bonds, mortgages, life insurance policies, bank deposits, annuities, and other obligations payable in dollars. Therefore, the nation's No. 1 financial problem is how to prevent the filching away of the savings of the thrifty classes of the population.

An Effective Course of Action

The only course of action which is likely to prove effective in protecting these savings is for the Government to pay off as rapidly as feasible a large fraction of the debt to the banks, and thus reduce by a like amount the volume of demand bank deposits now outstanding in the hands of the public and available for the purchase of goods. Were this done promptly, the upward pressure on prices would disappear, and there would no longer be the slightest legitimate excuse for governmental regulation of prices.

Granted that a reduction in bank deposit volume is highly desirable, the next question which arises is how large a volume of bank deposit retirement would be required to bring prices back to a reasonable level. It is, of course, impossible to answer this question precisely. However, a clue to the solution is offered by the following facts. Because production was increasing so rapidly, inflation did not cause the upward pressure on prices to become severe until employment reached a peak in 1943. At this time, the volume of bank deposits was around $60 billions. Now the corresponding total is more than $100 billions. Since experience shows that the supply of "pocketbook money" automatically tends to parallel the supply of demand deposits, it seems probable that, if production were kept at a high level, the retirement of some $40 billions of demand deposits would cause prices to settle at a level which would not be grossly unfair to the holders of obligations payable in terms of dollars.

Retire $40 Billions of Bank Deposits

To retire the required $40 billions of deposits, is, of course, anything but a simple matter. Prof. Irving Fisher suggests the freezing and compulsory investment of a uniform fraction of each individual's demand deposit. If legal obstacles should not prove to be insurmountable, such a plan would doubtless be effective. The Government might require each depositor, on a given day, to invest a specified percentage of his checking account in a special issue of Federal bonds of a type not usable as collateral for bank loans and not subject to ownership by commercial banks. Depositors desirous of avoiding such investment would, of course, use the time before the given date to exchange their bank balances for other property. As the conversion date approached, sellers of property would adjust their selling prices to take account of the fact that they would be compelled to invest something like 40% of the proceeds in Government bonds. Therefore, no individual would be penalized unduly by such a forced conversion.

An alternative plan for getting rid of the unwanted $40 billions of demand deposits (which plan is less drastic and more orthodox, but which is also less certain to be effective) is for the Government to raise funds from private individuals and non-banking concerns and use the proceeds to purchase Federal obligations held by banks. To accomplish this end, taxes ought to be held temporarily at approximately wartime levels, Federal expenses ought to be sharply curtailed and the resulting surplus ought to be used to pay off notes and bonds held by banks. The remainder of the funds required to retire the $40 billions of deposits should be obtained by selling to private investors bonds not usable as collateral for loans at commercial banks. To float a bond issue large enough to accomplish the end sought would, of course, necessitate making the terms attractive to individuals, insurance companies, and savings banks.

As the Government liquidated its indebtedness to the commercial banks, their reserve requirements should be tightened up sufficiently to prevent them from substituting private securities for the Government bonds which were paid off.

Higher interest rates would, of course, be burdensome to taxpayers, but the importance of preventing the confiscation of the savings of the thrifty is so great that the action nevertheless is justified. Moreover, most taxpayers would find their higher taxes offset at least in part by the protection of their investments.

After safeguarding the savings of the thrifty by the procedure described above, the Treasury ought next to take advantage of favorable opportunities to convert the major part of the debt into callable long-term bonds, and thereafter proceed to retire these bonds rather rapidly from the proceeds of taxes. The debt was incurred in a few years. It ought not to be allowed to hang on the nation's back like an Old Man of the Sea for decade after decade. The debt ought, indeed, to be wiped out before the next great emergency arises.

Bank Investments, the Postwar Boom and the Stock Market

(Continued from page 2503)

phasized the fact that the war-time fiscal policies of the United States Treasury were fundamentally responsible for the inflationary pressures operating in this country.

Inflationary Fiscal Policies

Mr. Eccles was getting down to basic causes when he pointed out that "so long as the public debt continues to be monetized through the purchase of Government securities by the banking system, the supply of money will continue to increase, thus tending further to reduce the interest rate on savings and investment funds. . . . This process needs to be stopped not only by bringing about a balanced budget, but also through measures to check further unnecessary expansion of commercial bank holdings of Government securities." He was thus the first person in the Washington Administration to state bluntly that we were threatened with inflation because "far too much of the cost of the war was financed through the creation of commercial bank credit and not enough was financed out of taxes and the savings of the public." This put the Truman Administration and the Treasury Department on public notice that something had to be done to reverse the inflationary trends growing out of previous fiscal policies.

The following table shows the extent to which the fiscal policies of the U. S. Treasury utilized the Federal Reserve Banks and the commercial banks of the nation in financing the war effort:

(In Billions)

Year Ending December	Increase in Federal Gross Debt	Increase U. S. Secur. Fed. Reserve Banks	Increase U. S. Secur. Commer. Banks	Total Increase U. S. Secur. in Banks
1941	13.0	0.1	4.0	4.1
1942	50.2	3.9	19.7	23.6
1943	57.7	5.3	18.7	24.0
1944	64.7	7.3	17.4	24.7
1945	47.5	5.4	*14.2	19.6
Total	233.1	22.0	74.0	96.0

*Estimated.

From the above exhibit it is not difficult to isolate the figures Mr. Eccles had in mind in his above-mentioned statement. The increase in the gross debt of the Federal Government from the end of 1940 to the end of 1945 amounted to $233 billions. During these five years the Treasury borrowed $96 billions from the banking system. This amounted to 41% of the increase in gross debt during the war years.

Our Personal Liquid Assets Came From the Banks

In this connection it is interesting that the Federal Reserve Board estimates that in the five years from the end of 1940 to the end of 1945, personal holdings of liquid assets—bank deposits, currency and Government securities—increased by $97 billions. Over this same period of time the United States Treasury, acting for all the people, borrowed $96 billions from the banking system. As citizens, responsible for the solvency of our Treasury, we owe the banking system for our increased borrowing during these five years all but one billion dollars of the estimated increase in our personal liquid assets during this period. However, there is no need to worry about this debt because, from a practical viewpoint, what we all owe to the banks, nobody owes.

This whole situation provides an excellent example of how modern financial techniques enable us collectively to become poorer and poorer while individually we become richer and richer. In addition to the $97 billions increase in personal liquid assets the Reserve Board estimates there was an increase of $58 billions, in business holdings of liquid assets. Of the total increase of $155 billions, holdings of U. S. Government securities amounted to $77 billions which means that personal and business holdings of currency, demand deposits and time deposits increased $78 billions. This amount is only slightly in excess of the total liquid assets that were created by the commercial banks lending $74 billions to the U. S. Treasury during these five years.

If individuals, partnerships and corporations had created $78 billions of liquid assets by borrowing $74 billions from the commercial banks their net increase in liquid assets would be only $4 billions. The beauty of our latest technique in using the credit of the U. S. Treasury to create liquid assets out of bank loans is that individuals, partnerships and corporations on net balance have not had to expand their bank loans, while the fiscal policies of the Government have greatly expanded personal and business liquid assets, the effect of which has been to exert a downward pressure on the money market so that the Treasury could borrow more and more at lower and lower interest rates.

It is this pleasant, easy way of financing our economic activities that has been threatened during the past few months. Between Jan. 2 and April 3, total U. S. Government securities held by the 12 Federal Reserve Banks declined $2,122,000,000. From Feb. 6 and April 3, investment holdings of the reporting member banks showed a drop of $3,113,000,000.

Sensational Decline in Bank Investments

In comparison with previous experience the decline in two months of more than three billion dollars in the investment holdings of the reporting member banks may with justification be described as sensational. The previous record was established by these banks between July, 1936, and October, 1937, when, over a period of 16 months, their investment holdings registered a decline amounting to $2,200,000,000.

This liquidation was the financial background of the 1937-38 bear market and business depression. However, despite the fact that the three major credit crises of the previous 20 years had been foreshadowed well in advance by a decline in bank investments, there was no attempt, either before or after the financial and industrial collapse of 1937, to associate the record-breaking decline in reporting member bank investments with the economic developments of that year.

In testifying before Congressional committees in December, 1937, and January, 1938, Mr. Eccles failed to mention the trend of bank investments as a contributing factor to the business depression. He expressed the opinion that a billion dollars of increased Government spending might act as a necessary stimulus to stop the decline in industrial activity. Apparently, however, a two billion drop in Government securities held by banks, which holdings had made previous Government spending possible, did not impress him as anything worth mentioning to Congress.

In comparison with bank credit developments at various times prior to 1937, the situation in the latter year was so different that there was ample excuse for assuming that a decline in bank investments could not be followed by the sequence of events associated with previous major deflations, despite the fact that the economic crises of 1907, 1920-21 and 1929-32 were all preceded by a reversal of the rising trend in bank investments well in advance of a major downturn in the stock market and general business activity.

Past Panics Correlated With Bank Investment Declines

The panic of 1907 was foreshadowed by the failure of the investment account of national banks to show any net expansion in the 19 months between May, 1905, and January, 1907. The decline between these two dates was only $10,000,000, an insignificant amount on the basis of current standards. Its importance can be fully understood only when it is related to the steady increase in security holdings which had been in progress for many years. During the 19 months preceding May, 1905, the national banks had increased their investments by $154,000,000, or 30%. For proper perspective on developments between the spring of 1905 and the beginning of 1907 it is essential to emphasize the fact that for a year and one-half the banks found it impossible to increase their investments while loans and discounts were increasing $564,000,000, an amount which represented more than 80% of their total investment account.

In connection with the money panic of 1907 the sequence of events was a peak in bank investments in May, 1905, an absolute average high in the stock market in January, 1906, with a close approximation of the January highs during the autumn, and a high level of industrial prosperity that was well maintained through the summer of 1907.

From 1914 to 1919 the banks showed large annual increases in both loans and investments. With the help of the new Federal Reserve System, however, they were able to avoid anything approximating a serious credit situation. But during 1919 there developed a diversity in the trend of loans and investments. The investment account of the reporting member banks reached a high in May at $4,900,000,000, from which level a decline started and continued until July, 1921. This decline resulted in a reduction of $1,700,000,000, the investment account at the low of 1921 amounting only to $3,200,000,000. Between May, 1919, and October, 1920, however, the volume of loans outstanding increased from $10 billions to $13.9 billions while the investment account declined $1.6 billion.

The sequence of economic developments following World War I was a peak in the investment account in May, 1919, followed by a stock market high in November, 1919, with the highest levels of industrial activity deferred until the first quarter of 1920.

The 1928-1929 Experience

The next major decline in bank investments reflecting a tightening credit situation was in 1928-29. Between June, 1928, and October, 1929, the reporting member banks showed a decline of $775,000,000 in their investment holdings and an increase of $1,800,000,000 in loans. The approaching collapse of the great New Era boom in the stock market was thus indicated by a peak in bank investments in June, 1928, followed by a high in industrial activity in June, 1929, and the top of the market during early September.

When the decline in bank investments developed during the second half of 1936 it did not seem reasonable to regard it as at all comparable to the previous periods of liquidation in bank portfolios. In view of continued excess reserves and a 1% short term money rate it was virtually impossible to believe that the decline in investments really indicated an adverse turn in the credit situation, to be followed in due course by a major decline in the stock market and in general business activity.

As we eventually discovered, however, that is exactly the way things worked out. As a result of the 1937 lesson it would seem to be advisable not to dismiss too lightly the reversal of an eight-year trend that in the past four years produced an annual average increase of $23 billions in the holdings of U. S. Treasury securities by the Federal Reserve System and all the commercial banks with the latter group supplying a yearly average of $17.5 billions.

The chief reason for arguing that the approximate $5 billions total decline shown by the Reserve System and the reporting member banks so far this year has relatively little significance is that it reflects no economic compulsion but merely a decision by the Administration to reduce surplus Treasury funds resulting from borrowing in excess of requirements in the Victory Loan drive late last year. Right at this time this argument is sound. An important point to keep in mind however, is the possibility of drastic changes that may occur during the interval between the reversal of the bank investment trend and the subsequent peaks in the stock market and general business activity as revealed in the summary of previous experience.

Past Effects on the Stock Market

In 1905-07 the stock market advanced for eight months after the peak of bank investments had been established: in 1919 the subsequent advance lasted for six months; in 1928-29 for 15 months and in 1936-37 for eight months. If a lag in the present situation is assumed comparable to that of 1928-29, the market could continue to advance for more than a year. While this advance was going on in the market, industrial production would presumably be supplying some of the well-publicized deferred demand for numerous items.

More important, however, is the probability that over this period of a year or so there will be some net contraction in the loans and investments of commercial banks. The uncertainty in connection with such a development is what it might do to effective purchasing power. During the past four years the total economic activities of the nation became geared to an annual average of $17.5 billion purchasing power painlessly created by the commercial banks. Previously created purchasing power has a momentum that carries on for a time. However, the experience of the past indicates the probability of economic difficulties if we cut the production of bank credit purchasing power drastically below any rate to which we have become habituated.

In the present situation the most important question that must be given a practical answer within a year or so is what will be the result of a financial reconversion program that attempts rather abruptly to stop monetizing the public debt through the purchase of Government securities by the banking system. Since 1933 there has been only one year that we failed to monetize some public debt. That year, of course, was 1937. Since the Civil War the only years in which we failed to monetize some public or private debt were 1876, 1877, 1878, 1884, 1885, 1893, 18[illegible], [illegible]21, 1930, 1931, 1932, 1933 and 1937. It requires only an elementary knowledge of business history to recognize that all of these years were associated with the most serious business depressions of this 80-year period. As long as there is any chance of going from a plus year to a minus year in the monetization of debt, it would seem advisable to be on the alert for a possible major interruption of the generally accepted postwar boom.

Small Business Loans Under RFC Program

More small business loans were made by banks during the first three months of 1946 under the new RFC Blanket Participation Agreement Program than in the preceding nine months of 1945, the Reconstruction Finance Corporation announced on April 26.

During the first quarter of 1946, said the RFC, 1,294 loans, aggregating $59,200,000, were made under the BPA Plan. During the last nine months of 1945, 1,204 loans, aggregating $58,800,000, were made under the Plan. The advices from the RFC continued:

"The Program was put in operation in April, 1945, when 15 BPA loans, totaling $1,200,000, were authorized, and each successive month, with the single exception of last December, has shown an increase over the preceding month in both dollar amount and number of loans.

"The BPA Plan was established by RFC after the Corporation had made a nationwide survey through its 31 Loan Agencies of banking and business suggestions as to how RFC could most effectively utilize its lending powers and facilities in helping to assure an adequate supply of credit for the use of private industry and finance in developing postwar industrial expansion, particularly through the establishment of many new business enterprises and the expansion of existing enterprises.

"Under the Plan, banks may make loans to business concerns with a practically automatic guarantw by RFC up to 75% of each loan made under the Agreement. The bank advances the credit and handles the loan itself. RFC simply commits itself, subject to the provisions of the Agreement, to take over part of the loan if the bank so desires, upon ten days' notice; thus, in effect, insuring liquidity for the portion of the loan covered by the Agreement in case the borrower slows down in his repayments.

"The smallest BPA business loan to date was for $240, made to a chicken fattener in Mississippi, and the amounts range up to $350,000, the maximum that may be loaned under the Plan to any one borrower. Eighty-eight per cent of the loans have been in amounts of $100,000 or less, and one-third of this $100,000-or-less classification have been for $10,000 or less. The average loan is $45,600.

"More than half, 52.4%, of the banks taking part in the BPA Program are located in towns and cities of less than 10,000 population. On the other hand, 94 banks in cities of over a million population have been approved under the Plan and more than 100 banks, each having deposits in excess of $100,00,0000, have likewise upon their request, been approved.

With B. C. Ziegler & Co.

(Special to THE FINANCIAL CHRONICLE)

WEST BEND, WIS.—**James M. Huck** and **Gerhard Spielman** are with **B. C. Ziegler & Co.**, 215 North Main Street. In the past Mr. Huck was with Hulburd, Warren & Chandler. Mr. Spielman has been in the U. S. Navy.

Frank. Knight in Pittsburgh

PITTSBURGH, PA. — Franklyn Knight, Jr., will conduct a securities business from offices in the Union Trust Building.

Fiscal and Housing Policies Affecting Banking

(Continued from page 2509)
the cooperation of the banks. This point looks to the shift from short term securities held by banks to investment by non-bank investors in long-term Government securities.

A short time ago, the banks of the nation were presented by Secretary of the Treasury Vinson with a certificate as a token of appreciation for the services rendered by the banks in the sale of war bonds during the war years. The necessity for that cooperation is not ended. It is important that we continue our efforts in the sale of savings bonds in the future. The continued sale of E, F and G bonds will secure a more desirable distribution of long-term Government securities. It will absorb excess purchasing power in the hands of the public and thereby prove beneficial to the Government, to the banking system, and to the nation as a whole.

Second, the Executive Council set forth its approval of the Treasury policy of using its war loan balances in the banks to repay Government debt. It was recognized that this policy will have the effect of reducing the earning assets of the banks and in many cases, reducing their deposits. This will also require each bank to reexamine its Government portfolio to make certain that it has sufficient liquidity to meet the Treasury calls on its war loan account, and possible deposit shifts. It is recognized further, that drawing down the balances of the war loan account, in fact, represents a return of the funds previously borrowed by the Treasury. The most effective anti-inflationary budget policy would be one in which substantial budget surpluses were achieved, through reducing Federal expenditures, and adopting appropriate tax policies.

The third point in the program is to have the Treasury issue refunding bonds of long-term maturity. This would enable the Treasury to reduce the size of its floating or short-term debt and at the same time make use of the accumulated funds of institutional investors such as insurance companies and corporations.

The fourth proposal suggests steps to be taken to reduce the speculation in Government securities. Two points were suggested. One, that the preferential discount rate of ½% be discontinued. This suggestion, which the American Bankers Association has advocated from the time its use became no longer necessary as a wartime measure, has already been adopted by several of the Federal Reserve Banks. The second point, in this connection, proposed that banks carefully review their loans on Government securities with a view to fulfilling their commitments to the Treasury to limit the length of these loans to a six months period. It is important to curtail speculation in Government securities and by that action provide stability in the Government bond market, and to stop a continuous decline in interest rates. Unduly low interest rates constitute a definite inflationary pressure.

It should be emphasized that this anti-inflationary program deals with monetary and Treasury financing policies. It is not intended to be a statement of a complete anti-inflationary program. Such a program would be much broader and contain additional major proposals.

Housing Program

The most widely publicized Government activity at the moment relates to housing facilities. It appears that every area in the nation finds that it is inadequately equipped with shelter units. The housing shortage was aggravated by curtailments which were imposed by the Government during the war. The solution of this problem is of vital importance to the banking system, in view of the fact that an extensive building program would result in the creation of a large volume of mortgage financing.

There are two bills pending in Congress at the present time, which are being discussed far and wide. The first is the Patman bill, which incorporates the Wyatt Emergency Housing Program. The Wyatt program has as its goal the building of 2,700,000 homes in the next two years. It provides for a $600,000,000 subsidy payment to increase the output of building materials. It advocates a price ceiling on existing homes. The Patman bill also provides certain adjustments in FHA insurance operations. Specifically, that provision is similar to Title VI of the National Housing Act, as amended in 1941 and 1942.

You well recall that these amendments provided for mortgage insurance on low cost homes for an amount up to 90% of the appraised value of the property. Now, under this bill, such mortgage insurance is to be based on necessary current cost of construction, rather than on long-term economic value.

Huge New Mortgage Financing

It has been estimated that if the Wyatt program as incorporated in the Patman bill is adopted, it may result in an increased volume of mortgage financing of some 13 to 16 billion dollars.

The Patman bill passed by the House eliminated the subsidy provision and the price ceiling. These two items were both restored by the Senate. The conference committee of the two Houses of Congress is still deadlocked over the provisions of this bill.

The second bill now pending is the Wagner-Ellender-Taft bill, referred to by many as the W-E-T bill. This bill has been approved by the Senate as the General Housing Act of 1946 and is intended to be a long range housing program.

It provides for the creation of a permanent housing agency, which will constitute another permanent Government bureau. It increases FHA insurance up to 95% of the appraised value of the premises involved, with amortization extended to 32 years. It is to be noted that even this bill with its many weaknesses does abandon the provision for loans based on necessary current costs, and reverts to the principle of loans based on appraised value. It provides for the development of rural housing through low interest, long-term loans, to be made by the Department of Agriculture. It establishes an FHA insurance system to encourage life insurance companies and savings banks to invest funds in large-scale housing projects with guaranteed annual returns, ranging from 3¼ to 4% on a 50-year basis. It contains a program of land assembly, slum clearance, public housing, and urban redevelopment.

Impending Mortgage Debt Structure Dangerous

I should like to devote myself to some of the features of these two housing bills which relate to credit policy and their effects upon the size of our mortgage debt structure. The National Housing Act, under which the FHA operates, was enacted in June, 1934. It came into being at a time when the price level had been deflated, incomes were low, housing construction was stagnant and little mortgage money was available. It is generally recognized that the FHA program during the 30s proved highly beneficial to all parties in interest. The volume of mortgages which were insured under Title II by the FHA from June 27, 1934, through June, 1940 amounted to approximately 3 billion dollars.

At the present time, the conditions prevailing are almost exactly the reverse of those which existed when the FHA program was originally instituted. Incomes are high. The commodity price level has increased in excess of 40% and costs of construction have increased by nearly 100% over 1934. The interest cost of home mortgage credit is 16% less now than it was 15 years ago, with ample funds available for that character of credit.

The question can properly be asked, is it wise to expand at this time, the credit provisions of the FHA program, by providing for first, a higher ratio of loan to value, and second, a longer amortization period?

All of us are, I am sure, in accord with a program to provide needed housing facilities for the people of this nation. However, in seeking to solve the present emergency, we should avoid policies which will bequeath to us a heritage of a chronic long-range housing problem. Instead of liberalizing further the very generous credit terms now available in home financing, which would increase an already swollen demand fo rhouses, a greater contribution toward the sound solution of our housing problem would probably be made by a careful survey to determine:

1. How many units of the different types of dwellings do we reasonably need?

2. How much material is, and will be available within a reasonable time?

3. Is it the shortage of materials, or is it the curtailment of production due to restrictive practices by labor and producers of building materials, that is the basic cause of high costs and delayed construction?

Senator Taft, in speaking on the General Housing Act of 1946, predicted that it would produce 1,250,000 homes annually during the next ten years, at an annual investment of from 6 to 8 billion dollars.

The mortgage debt structure resulting would approximate 80 billion dollars.

By way of comparison, it is interesting to note that the French national debt amounts to 1 trillion 700 billion francs or, 14 billion dollars at the current legal exchange ratio between francs and dollars. The probable mortgage debt structure that would be created under this housing program would be nearly six times the size of the French national debt in terms of the American dollar. But more important than the absolute magnitude of the mortgage debt structure that would be built is the status of our economy at the time at which this debt structure is created.

We have witnessed how the vigorous building activity in the 20's was followed by the decline and stagnation of the 30's. The mortgage debt structure during the 1920's was increased by 20 billion dollars. I repeat, the Housing Act of 1946 may result in 80 billion dollars in mortgage financing. It is important that both the creation of an excessive debt structure be avoided, and that we do not produce an excess in housing units that in itself will depress the value of all existing housing facilities. A balance in supply and demand of housing is essential to the welfare of both the owner and the mortgagee.

In view of this consideration, it might be well for Congress to reappraise the existing liberal provisions of the FHA law and its amendments as it relates to ratio of loan to value and to the length of the amortization period, with a view of preventing excesses that will return the tearful days of the early 1930's.

A sound housing program can probably be developed if it is within the limitations of sound principles, such as:

First, soundness in individual planning and construction.

Second, soundness in community planning.

Third, soundness in financing, and

Fourth, the avoidance of excessive building at high costs of labor and material.

The productive capacity of the American economy is tremendously great. In our concern with present emergencies, it is of vital importance that we keep our perspective on our long-range programs and potentialities. We should attempt to avoid a lack of balance in all phases of the economic system, to the end, that the sound functioning of our economy will promote the common interests of the American people. I have great faith in the future of America.

Bendix, Luitweiler to Admit Eric Goldsmith

Bendix, Luitweiler & Co., 52 Wall Street, New York City, members of the New York Stock Exchange, will admit Eric M. Goldsmith to partnership as of May 16. Mr. Goldsmith has been with the firm for some time and in the past was manager of the firm's branch in Amsterdam, Holland.

New York Stock Exchange Weekly Firm Changes

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

L. Martin Richmond, member of the Exchange, and Wilfred J. Durning, general partners in Moore & Schley, New York City, became limited partners effective May 1st. Harry M. Durning, limited partner, became a general partner on the same date.

Carroll Coleman retired from partnership in Delafield & Delafield, New York City, on April 30th.

Whipple Van Ness Jones withdrew from partnership in Hill Brothers, St. Louis, Mo., on April 30th.

James A. Cummins of David A. Noyes & Co., Chicago, Ill., died on April 26th.

On May 16th, the Exchange will consider transfer of the Exchange membership of the late Edward W. Clark to Sydney P. Clark who will continue as a partner of E. W. Clark & Co.

What Lies Ahead in the Home Building Field?

(Continued from page 2513)

not suitable for permanent construction.

2. Where materials suitable for permanent construction are required in the temporary housing program, the use of such materials shall be reduced to a minimum.

3. Materials needed for temporary housing shall be obtained so far as possible, from Government surplus stocks, rather than purchased in the open market.

A good example of the effect of this policy is lumber. We estimate that lumber requirements, including running millwork, will total some 262 million board feet, which works out to a very modest amount per veteran's family housed. To the extent that we have claimed surplus lumber, which we are promptly moving into production of housing for veterans, we have avoided going into the market for supplies.

In lumber, as with other materials required, we are doing our utmost to utilize materials unsuitable for private housing construction. Rather than dip into the small stocks of seasoned lumber available, we are making maximum use of grades that are below standard for permanent building.

Another item in the 1946 program is 50,000 additional dwellings by privately financed conversion of older, larger dwellings into modern, attractive, smaller apartments for veterans. Priority assistance has been made available and FHA has increased the amount and term of loans which it will insure for this purpose.

The 1946 program also provides for the start of 700,000 homes to be constructed on the site, or so-called "conventional" construction. Preliminary reports indicate probable starts for the first quarter of 1946 were 150,000 dwelling units. This compares with around 30,000 starts in the first quarter of 1945 or an increase of 400% in the number of starts for the first quarter of this year. But we are not after starts, we are after completions.

Finally, the 1946 program contemplates the start of 250,000 homes to be factory fabricated or of which major sections will be factory built. Applications have been approved for priority assistance for the second quarter for 76,000 homes. The applications demonstrate a substantial existing capacity in this field which will be augmented by new plants now in prospect.

Our plans for 1947 involve 1,500,000 starts of which 900,000 are conventional and 600,000 are to be prefabricated. What are the tools to be used in achieving this record breaknig number of starts?

First, the Civilian Production Administration has issued Veterans' Housing Program Order No. 1 which forbids the start of all new construction other than the Veterans' Housing Program unless exempted from the terms of the order or specifically authorized under it. The Order will constitute a brake on non-residential construction by postponing non-essential and deferrable construction, whether publicly or privately financed. The tests applied are, (1) whether and how much the proposed construction would interfere with the Veterans' Emergency Housing Program, (2) the essentiality of the proposed work in relation to the Veterans' Emergency Housing Program, (3) essentiality of the proposed work in the elimination of a bottleneck to the reconversion of the national economy from a war time to a peace time basis, (4) essentiality of the proposed work to the public health and safety of the community and (5) to eliminate an unusual and extreme hardship. The Order does not stop construction which had been started on March 26, 1946, of which there was a large volume; it excepts from its operation many types of construction such as roads, streets, railway tracks, bridges, tunnels, subways, pipe lines, transmission lines, mines, dams and canals. The Order contemplates the approval of a substantial amount of essential, non-deferrable construction. The principal effect will be to make the increased volume of building materials available principally for housing.

The emergency program as explained later calls for premium payments to stimulate a great acceleration in production of building materials, but even with a great increase in materials the houses cannot be built without this curb on non-essential construction.

While the bulk of the increased production of building materials will be needed to meet the veterans emergency housing needs, some of this increase will also go into essential non-residential construction. Actually, therefore, the effect of the program will be to stimulate a larger volume of non-housing construction, even with the limitation order. The limitation order, in other words, merely channels the materials available for non-housing use into essential rather than non-essential building. The total volume of non-residential construction, as the result of the increase in materials, will be far above the 1945 figure and also higher than the previous estimates for non-residential building for the two-year period ending in 1947.

Second, I wish to mention a series of price increases by the Office of Price Administration. Since V-E Day there have been 91 general actions with reference to building materials of which 41 have been increases granted during 1946. Increases since the Veterans Emergency Housing Program was announced include a 12% boost for warm air furnaces; a \$4.60 increase per thousand board feet for western pine lumber; a 20% increase in cast iron radiation; a 14% increase in low pressure steel boilers; a 10-20% increase in Appalachian hardwood lumber; an 11% increase in Douglas fir open window sash; a 28% increase in Douglas fir doors and a 20% increase in plywood.

Price adjustments of general character are still necessary in some instances and they should be granted where warranted.

Third, premium payments are necessary and desirable. It is our conviction that the Veterans Emergency Housing Program cannot be accomplished without premium payments. There has been sharp disagreement on this point but there are only two main conflicting views.

On the one side, there are those who say that the economic incentives to increased production of building materials may best be furnished through price increases, applied generally to those categories of commodities where increased production is urgent. In the very nature of such a price increase, it would need to be made applicable to all units of the types of commodities involved, and not solely to the units above current production which involve higher per-unit costs.

On the other hand, there are those who say that the economic incentives to increased production of building materials may be obtained most surely and most safely through the use of premium payments. Let it be stated, once and for all, that those who believe in premium payments do not deny that price and wage adjustments of a general character are necessary in some instances—and they should be our first resort in any such instances on a basis of careful selection. But those who believe in premium payments do feel that premium payments offer the best method for stimulating producers through covering selectively and where necessary the higher costs of additional units of desired production, without at the same time—as would be the case with price increases—paying more for the units of current production even though no additional cost is involved.

After the Armistice in 1918, there was a brief spurt in house production. But with the advent of early 1920, house production started steadily and steeply downward, simultaneously with the continuing increase of prices toward a tremendous peak. There can be no doubt that despite an enormous need for housing, production was choked off by the extraordinarily high prices. Then it is to be noted that, beginning in early 1921 and continuing until early 1923, the production of houses started to climb steadily and sharply upward in almost precise correlation with the sharp and steady downward trend in prices. The lesson is plain: inordinate price increases, even if they entice the producer immediately, leave him soon without the buyers to take the product off his hands.

The premium payment is the only method, short of more costly and less certain general price increases which break through the price ceiling, that can bring into the field relatively high cost but nonetheless needed marginal producers. Correspondingly, of course, premium payments generally are the one way to pay the current producer for the higher per unit cost of increased production—again without breaking through the price ceiling.

Fourth, the proposed amendment of Title VI of the National Housing Act will assist us substantially in providing housing at lower costs and in stimulating large scale multiple unit rental housing projects. It will also help with land acquisition. The liberalized terms of the Act should make it possible for builders to produce in volume modestly priced homes in planned neighborhoods just as soon as an increased flow of materials is available. As an inducement to build lower cost housing and rental housing, the expanded financing aids of Title VI of the National Housing Act, if approved by Congress, will be available for all rental housing and for sales housing below the "dividing line" announced in the recent "channeling order."

Fifth, the so-called "channeling order" which was announced last week is the first step toward channeling building materials into moderate and low cost housing under the Veterans Emergency Housing Program. The immediate effect of the new order will be to increase by 50% the homes built under \$6,500 in the next quarter. The order takes into account differentiation in construction costs in different geographical regions as well as differences between metropolitan and rural areas. The "dividing line" in any particular city or area is the highest approved maximum sales price in the lowest third of applications approved in the first quarter of this year. A rental "dividing line" is similarly established. A minimum of 25% of the housing required for the area as a part of the national program must be for rental. The order was issued after consultation with a Committee of the National Association of Home Builders and has been described by its Prseident as a reasonable and workable order.

There are other problems and other tools which must be used. Rapid amortization for tax purposes of new plants will encourage the construction of new facilities for the production of building materials. We propose to ask for such legislation. At the present time, one of the principal problems is getting raw materials to the producers of building materials. This may require the allocation of materials for these purposes. The basic legislation which has been requested of Congress should be forthcoming in the near future at which time the exercise of the powers requested will begin. In addition, we hope the legislation will provide for guaranteed markets for new type materials and for prefabricated homes.

As soon as the production of materials is increased substantially, construction labor will constitute the next big problem. Cooperation has been given us by the Department of Labor through the United States Employment Service in helping recruit and train the expanded labor force for raising building materials production and which we shall need to build homes once material production is fully underway. It is estimated that our present labor force in the home building industry—both on-site and off-site—will have to be tripled by mid-1947 if we are to meet our expected demands. Our goods for 1946 will require about one million workers on the site and about another million off the site. Non-residential construction will require almost the same numbers on and off the site. The Apprentice Training Service, with the cooperation of labor and management is making strides in expanding apprenticeship for the building trades. Since V-J Day it is estimated some 40,000 men have begun training for the construction trades. The unions have cooperated in waiving age limits for veterans beginning apprenticeship training, in making entry more attractive, in extending credit for experience gained in the armed forces, and in giving periodic examinations to speed apprentices through their training periods. The United States Employment Service, charged with the main load of recruiting labor, has been instrumental in expanding the labor force in a number of industries contributing critical construction materials.

Although there are many things we in the Federal Government can do, housing is primarily a job for the community. At best, the Federal Government can only provide for an adequate flow of materials and manpower and render other services to make it possible for the communities to meet this problem. We have urged the Mayor of each community to appoint a committee which will take a true emergency approach to this problem and which will aid the attack on the housing problems of the locality. Although our national estimates have been carefully prepared the real determination as to needs must be an aggregate of the needs of local communities locally determined. We have urged each community to prepare and maintain up-to-the-minute surveys of their housing needs, to clear the way of local obstacles which might impede essential housing construction and to meet the immediate housing need during the interim period before full scale construction of adequate new housing by making a greater use of the existing housing supply.

Mayors' Emergency Housing Committees can encourage modernization of local building codes to permit use of new types of construction materials developed as a result of technological progress, by assisting in the recruitment and training of labor, by breaking local bottlenecks in building materials, by speeding up issuances of building permits and inspection of homes, by fighting black market activity in building materials and in rental ceilings. The Committee should also see that new areas are provided for home construction where required. A sufficient number of lots with sewer, water and other facilities must be ready for immediate use as manpower and construction materials become available.

The existing housing supply can be used more intensively by developing a temporary home-sharing program for veterans and by encouraging conversions to provide additional dwelling units. Centralized information centers should be established to refer veterans to available housing and the committee should undertake to see that first preference is given to veterans on existing housing offered for rent or for sale.

What, then, lies ahead for the building industry? If Congress sees fit to drop price controls on building materials, it is likely that we will follow the 1919-1921 pattern. In 1919, residential construction awards increased 600% from January to midyear and then began to decline. Construction awards for non-residential building continued to increase all during the year. The competition for available building materials and labor created serious shortages although prices asked late in 1920 were higher than the building industry had ever known them to be. Builders were unable to obtain materials in any quantity desired. Wholesale building material prices rose 72% from April 1919 to April 1920. Wholesale lumber prices rose more than 125% during this period. Purchasers began to rebel. Construction fell off in both residential and non-residential categories. Plans for the construction of new building were cancelled because of costs. The construction boom lasted just about a year. Total contracts awarded turned down in February 1920 following residential construction which had begun to slide down in August of 1919. The value of total construction contracts awarded dropped by more than half from January 1920 to February 1921. Residential building dropped 67% from its peak in July 1919 to December 1920. Notwithstanding the demand which continued, the up turn in prices had checked the purchase of homes by many families and the resulting decrease in construction had contributed to a general sharp drop in business, employment and earnings.

If price control continues with proper adjustments for increases in the costs of material and labor there should be a constant increase in the flow of materials, with construction of new building materials plants and in the production of modern machinery for the production of such materials. As these materials appear on the market there will be an increasing number of completions. We not only will see an increasing number of homes constructed conventionally on the site, but will also see an increasing number of permanent houses manufactured in factories or built on the site from prefabricated sections or precut lumber. We will see many improvements which will greatly reduce the cost of new homes. In addition, we will see many of the increased costs disappear, the cost due to delays in delivery of materials, the cost due to increased overhead, to increased interest during construction, to impossibility of efficient scheduling of materials and construction. We will also see the elimination of increased costs due to the substitution of non-expensive materials because less expensive, but acceptable materials were not available. Even with some increases in prices of building materials and some increases in labor costs, substantial reductions in the overall cost of producing housing should be possible.

In addition, just as soon as we reach production of a substantial number of homes per month, the veteran will have some choice between new construction and existing homes, and the inflated prices of older, poorly planned, poorly located homes should begin to fall rapidly.

The only possible impediments are stubbornness of management, labor or government. We are spending our energy in trying to find the right answer and the day we believe the demand is being met and can be met without further controls or further government intervention, we will end the controls. We do not want to spend our time hurling invectives at others, or singing our own praises. We want to spend the time tackling the huge problems which all parts of the home building industry have to face and giving what assistance we can to meet those problems.

If we get back to the basic problem, the provision of homes for veterans, the great mass of whom need modestly priced homes and apartments, we will find an answer together. *In the final analysis, the veteran is not interested, or too much concerned, about how we get there or who leads the way. He is concerned with a good home at a reasonable price.* He thinks he is entitled to it. He is going to complain vociferously if he doesn't get it and it is up to us who were protected by him to find the answer. We believe we have a program which will provide that answer and we want your help in carrying it out.

Mr. Wyatt has said, "it will take a dynamic program to achieve this goal: neither business as usual, labor as usual, building as usual, nor Government as usual will suffice." If you will keep that motto in mind while you hold this Clinic and make your policies with the veterans' needs in mind, I am sure we will be able to lick these problems together and both 1946 and 1947 will be among the best years the home building industry of America has enjoyed.

Philadelphia Securities Association Outing

PHILADELPHIA, PA.—Annual outing of the members of the Philadelphia Securities Association will be held Friday, May 24 at the Llanerch Country Club, Llanerch, Pa. Golf will furnish the principal activity of the day and there will be an ambitious program of entertainment in the evening.

Golf will consist of the President's Cup Tournament, a Kickers' Handicap, and a Guests' Tournament.

G. Ellwood Williams, of the Pennsylvania Company, is chairman of the General Committee. Other committee members are: Golf—Newlin F. Davis, of Kidder, Peabody & Co.; Prizes — Dudley Atherton, of Lazard Freres & Co., George W. Dart, of Marvin & Company; Entertainment — Llewellyn W. Fisher, of Paul & Co., Russell H. Cranage, of Reynolds & Co.; Reservations—Harry L. Heffelfinger, of Samuel K. Phillips & Co.; and Reception — Theodore M. Hughes of Standard & Poor's Corporation.

John R. Taylor Forming Own Investment Firm

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS.—John R. Taylor is forming Taylor & Co., Inc., with offices at 31 Milk Street, of which he will be President and Treasurer. In the past he conducted business under the firm name of Taylor & Co.

Bryan Simpson Celebrating

Bryan E. Simpson and his wife Clara are spending a week at Salt Lake City, Utah, celebrating their fourth wedding anniversary (May 1). Mr. Simpson is proprietor of B. E. Simpson & Co., Security Building, Denver, Colo.

Municipal News and Notes

1945 Gas Tax Revenues Show Rise

Ten states collected more than $25,000,000 each from gasoline tax revenues in 1945 according to the North American Gasoline Tax Conference. This was cited in a recent report which listed total receipts from state gasoline taxes during the past year as $849,600,000—an increase of 13% over 1944 collections which totaled $747,400,000.

Of the 10 states that lead the nation in revenue collections from this source, Florida with its levy of 7 cents a gallon had the highest tax rate of the group. North Carolina collected 6 cents per gallon while five states—Indiana, New York, Ohio, Pennsylvania and Texas—imposed a tax of 4 cents per gallon. California, Illinois and Michigan collected 3 cents per gallon.

The 10 leading states with the amounts collected by each from gasoline taxes during 1945 are as follows: California, $58,900,000; Florida, $25,500,000; Illinois, $37,700,000; Indiana, $25,900,000; Michigan, $29,100,000; New York, $53,200,000; North Carolina, $26,500,000; Ohio, $47,500,000; Pennsylvania, $47,600,000, and Texas, $58,100,000.

According to the North American Gasoline Tax Conference, three states increased the rate of their gasoline tax during 1945. Oklahoma raised its tax from 5½ cents per gallon to 7½ cents and provided that this new rate, the highest in the country, remain in effect until Dec. 31, 1946. Idaho's tax increase was from 5 to 6 cents per gallon and is to remain in effect until March 1, 1947. The rate in the third state, Iowa, was boosted from 3 to 4 cents.

Nationally, the peak of revenue from state gasoline taxes was collected in 1941 when receipts totalled more than $1,000,000,000. The war-time low in collections was 1943 when state revenue from this source dropped to $719,200,000.

Current data now at hand for several states, incidentally, sharply underscore the facts cited in the above report. The State of Arkansas, for example, collected $1,353,432.41 in gasoline tax revenues during April of 1946, as compared with only $884,397.43 in the same month a year ago. For the 10-month period ended April 30, 1946, receipts amounted to $11,948,246.59, which compare with $9,167,799.46 for the comparable period of 1944-45. The State's return from sales taxes also is mounting, according to the May 1 report of Otho A. Cook, Commissioner of the Revenue Department, which revealed that this impost produced $1,262,724.97 in the current month of April, while the return for the same month in 1945 was no more than $975,632.38. **For 10 months of 1945-1946 the gross sales tax intake was $10,879,187.87, which compares with $8,860,250.47 for the same period in 1944-1945. The grand total of income reported for the 10 months ended April 30, 1946, was $39,977,158.29, a gain of almost $10,000,000 over the $30,447,105.53 for the equivalent 1944-1945 period.**

A similar expansion of revenues is revealed in the report of Edwin Gill, Commissioner of the North Carolina Department of Revenue, in consequence of a sharp increase in revenues from gasoline, sales and income taxes. The former yielded $3,297,013 last month, as against no more than $2,026,586 in April, 1945. For the 10 months ended April 30, 1946, the figure was $27,246,266, while in the same period of 1944-45 the total was only $19,712,950. **Sales tax receipts for the April months were $3,287,807 and $1,987,733, respectively, while the income tax yields were $3,637,725 and $2,198,092. Total State revenues for the 10 months ended April 30 last reached $108,192,632, a gain of $16,59% over the $92,794,166 collected in the same period during 1944-1945.**

Municipal Bond Offering Publicity Found Faulty

The Municipal Finance Officers Association has received a letter which takes to task many of the local units in the country for their poor job of presenting prospective oond issues to the purchasing fraternity. The editor of the Association's "News Letter" reports that this correspondent is no novice in the field of local unit financing, which may be gathered from the constructive criticisms gleaned from his contribution:

". . . prospectuses, financial statements, issued prior to sales have tended to be perfunctory, fragmentary, or entirely lacking . . .

"I should hasten to add that almost without exception officials have responded promptly to our inquiries for data, have, in fact, been most co-operative. Their willingness to be helpful suggests that many more of them might take the initiative in providing financial information prior to bond sales if they knew better how to go about it and appreciated its publicity value.

". . . Either present officials have never had any experience in selling bonds, or the last issues were back in the 1920's when little financial information was needed. Here is a very typical current illustration. The City of X issued a call for bids March 6, for $250,000 of bonds to be sold March 12, only through the legal notice of sale. Since there was no time for investigation, I wired the finance officer for a copy of his official financial statement and for copies of his last three annual financial reports, if any. He responded promptly with an airmail letter which I received the day of the sale. He had no prepared financial statement and did not enclose a copy of his annual report. Although from the information in his letter, I got the impression that X was a well run small city, there was nothing tangible to use as a basis for bids and it was too late anyway.

"Contrast this with another city which had a large bond issue to sell just after their war boom had folded. They handled it beautifully and put it over. They started out a couple of months before the sale, sent out a brochure about the city, a pamphlet about postwar plans, an economic survey by an outside authority, a letter inviting inquiries (which they answered carefully), testimonial letters from the heads of local industries, copies of good annual reports, and, finally an informative current financial statement.

"I am less concerned about the absence of, or inadequancy of, financial statements prepared for bond issues, however, than I am about the lack of, or inadequacy of, published annual financial reports. I am amazed to find how many small and medium-sized political subdivisions (school districts being the worst offenders) publish no annual financial reports at all, or merely insert a few figures in the local newspaper. Good annual reports and budget summaries really provide information and permit analysis."

Who Are the Owners of These Buffalo Bonds?

George W. Wanamaker, City Comptroller of Buffalo, N. Y., calls attention to the fact that the following matured non-registered city bonds of $1,000 each but have not yet been presented for payment: general improvement, Feb. 1, 1927 issue, Nos. 2621 to 2640, due Feb. 1, 1946, interest unclaimed from Aug. 1, 1927 to Feb. 1 last; refunding, issue of Sept. 1, 1933, Nos. 3331 to 3380, due Sept. 1, 1945, with interest from March 1, 1939.

In the following instances, the Comptroller reports, interest coupons have not been presented for payment:

Type	Issue Date	Numbers	Interest Unclaimed	Maturity Date
Refunding	July 1, 1934	5760 to 5762	7- 1-39 to 1- 1-46	July 1-54
Refunding	July 1, 1934	5773 to 5779	7- 1-39 to 1- 1-46	July 1-54
Refunding	July 1, 1934	5895 to 5904	7- 1-39 to 1- 1-46	July 1-54
City Auditorium	July 1, 1939	981 to 985	1- 1-42 to 1- 1-46	July 1-53
Water	Sept. 15 1935	520 -- --	3-15-42 to 3-15-46	Sept. 15-49
		621 to 645	3-15-42 to 3-15-46	Sept. 15-52
		682 to 684	3-15-42 to 3-15-46	Sept. 15-53
		717 to 722	3-15-42 to 3-15-46	Sept. 15-54
Refunding	Oct. 15 1938	1682 to 1691	4-15-42 to 10-15-45	Oct. 15-56
Refunding	Oct. 15 1936	996 to 1000	4-15-42 to 10-15-45	Oct. 15-46

"Bond houses," the Comptroller says, "will confer a favor on us (to say nothing of the owners) by checking their records and letting us know if any pertinent information comes to light. In some cases forgetfulness may account for the situation. In how many cases, on the other hand, may it not turn out that death or disability resulting from the war or some other calamity is at the bottom of it?

"The general public should understand," Mr. Wanamaker continues, "that in the case of non-registered bonds we have no method of communicating with owners because we do not know their names. It is different with regard to registered securities."

Missouri Taxing Units May Issue Revenue Bonds

Any doubt as to the right of incorporated cities, towns and villages in Misouri to issue revenue bonds for financing of municipally-owned utilities was dispelled in a decision rendered by the State Supreme Court on April 30. The court held that the section of the new constitution authorizing such subdivisions to incur revenue indebtedness is self-enforcing and requires no legislative action to implement it. Bond issues of that nature must be presented at an election and approved by a four-sevenths majority vote.

The court ruled that revenue bonds payable from proceeds of the project need not be registered with the State Auditor and that their validity can be established through the issuance of a pro forma decree in the Circuit Court, as provided by statute.

The decision came about as a result of the refusal of State Auditor Forrest Smith to register an issue of $200,000 revenue bonds approved by voters of Fulton, Mo., in December, 1945, pursuant to provisions of the new State constitution. The Auditor contended that the new constitution was not self-enforcing and that the legislature had not enacted any law to effectuate it.

The high tribunal's ruling is expected to speed up plans of various local taxing units to prepare for elections on revenue bond issues. Under previous statute, revenue bonds for utility purposes could only be issued by cities of more than 75,000 population.

Leonard Allen With Chemical Bank Dept.

Leonard S. Allen has joined the staff of the Chemical Bank & Trust Company of New York as a trader in the Municipal Bond Department.

He is a graduate of New York University and was previously connected with the Municipal Bond Department of the Manufacturers and Traders Trust Co. of Buffalo, New York in their New York office.

Mr. Allen has just returned to civilian life after five years service in the armed forces where he rose to the rank of Lieutenant Colonel. He was attached to General MacArthur's staff in Australia in the logistics section handling supply, evacuation and transportation matters. Participated in all campaigns from Australia to Tokyo and was Chief of the Supply Division of the General Staff in Japan.

The Budget and Fiscal Policy

(Continued from page 2504)

is a good thing to have outgo in line with income. They have seen in their own experience the difficulties people have who imprudently or by necessity spend more than they receive.

Reasons for Balanced Budget

The reasons for wanting a balanced budget are of several kinds and they may arise separately or in combination. In general, we can distinguish four kinds of reasons—moral, political, financial and economic. Let us examine each briefly.

The moral reason for balancing the budget runs direct and deep. Simply it is this—it is wrong to live beyond your means, it is wrong to spend money you haven't got. Excessive expenditure is invitation to extravagance, to irresponsibility, to the weakening of character. On the other hand, limiting expenditure to available income forces prudence and thrift, makes for foresight and sound judgment, and imposes the sacrifice of taxes as the cost of enjoying the fruits of public programs of all kinds. Finally, excessive expenditure means that the government must borrow and this means public debt; and it is generally believed that to incur debt, except for income-producing purposes, is wrong.

The political reasons for a balanced budget center around the proposition that to appropriate money is easy but to tax is difficult. The maintaining of a balanced budget is believed to be the best insurance against the complete breakdown of restraint in public expenditure. Such a breakdown of restraint would result in unlimited spending for personal political ambitions and would soon result in the destruction of representative, democratic institutions.

The financial reasons for balancing the budget come to this: that deficits mean borrowing, and borrowing means debt. Interest has to be paid on the debt, and as the debt grows, the burden of interest payments grows with it. Finally, with increase of debt, we must come to a situation, which indeed we may already be approaching, in which interest payments to those who have investments in the national debt become an indispensable element in current income. Since these interest payments are made against tax receipts and not against earned income, the profit system is thereby weakened, and by the indirect financial route we substitute subsidy for enterprise.

The economic reasons given for a balanced budget are somewhat more sophisticated but they are nonetheless real. The argument is that excess of expenditure by the government creates an uneconomic demand for goods and services which keeps prices up when they ought to fall. In this way readjustments in levels of costs and prices are artificially obstructed. Unless the budget is balanced, the law of supply and demand cannot bring about a healthy economic equilibrium which the developing economic situation requires.

These reasons, moral, political, financial and economic, together with the instinct of prudence which underlies them, explains sufficiently the popular desire for a balanced budget. The fact that this goal is so generally accepted imposes a responsibility on financial leadership to make sure that these good intentions should not be misled or exploited for partisan purposes. It imposes a responsibility on financial leadership for understanding and explaining just what is involved in a balanced Federal budget.

I shall not attempt to explore the arguments that are involved in an analysis of the problem of balancing the Federal budget. The issues are too complex for brief presentation, and I am not sure that we have yet provided ourselves with a vocabulary in terms of which such a discussion could be successfully carried on. The reason is a very fundamental one, namely, that in the phrase, "balanced budget," I doubt whether we know precisely what either of the two words mean; or if we do, I doubt whether they mean precisely the same thing to any substantial group of individuals.

The fact is that the phrase, "balanced budget," has been used for so long as a political catchword that we have accepted it as though we understood just what it meant. Frankly, for myself, I have some doubt whether I could tell exactly what I mean by the term "budget," and I am sure that I do not know what I mean by the term "balance."

And so I shall limit my remarks this afternoon to putting before you the difficulties that are associated with the use of the term "budget" and the term "balance." The purpose which I have in mind is to persuade you that until these two terms are defined and clarified, discussion of a balanced budget policy can only result in confusion and perhaps in unwise and dangerous fiscal programs. If you agree that the terms should be defined and clarified, then I hope that you will feel that it is a responsibility of the financial and banking community that they are clarified and that you will proceed to do something about it.

First, let us consider what we are to mean by the term "Federal budget." For many people the Federal budget means those financial arrangements that fall under the jurisdiction of the Bureau of the Budget. This conception, while clear and precise, limits the significance of the budget for fiscal and monetary policy to a subordinate, although important, position.

Conceptions of the Federal Budget

Such a conception of the Federal budget is of limited significance because of the vast financial transactions of the Federal government which take place outside the Bureau of the Budget. It was only in December of last year with the passage of the Government Corporation Control Act that the receipts and expenditures of many wholly owned government corporations were brought under the jurisdiction of the Bureau of the Budget, too late to affect the budget for the current fiscal year. The Federal agencies, which until this Act was passed were outside the Bureau of the Budget, included such important organizations as the Reconstruction Finance Corporation, the Tennessee Valley Authority, the Home Owners Loan Corporation, the Federal Public Housing Administration, the U.S. Commercial Corporation, the Export-Import Bank, and many others.

The proposed Agricultural Credit Act, which has been approved by the House and sent to the Senate, provides for better coordination of government fiscal policy but does not associate these agricultural financial activities with the Bureau of the Budget. The organizations which it is proposed to bring under an Agricultural Credit Agency include the Farm Security Administration, the Farm Credit Administration, and the Federal Farm Mortgage Corporation.

Also outside the budget are the Central and Regional Banks for Cooperatives, the Federal Land Banks, the Federal Home Loan Banks, and the Federal Deposit Insurance Corporation.

Questions may be raised with respect to many items now included in the Budget. The Federal budget at the present time includes as an expenditure item the increase in face value of Series E and F bonds. Is this a proper item? The budget includes as an expenditure interest paid to the Federal Reserve Banks on government bonds held by the Federal Reserve Banks, although this interest becomes surplus and in the last analysis reverts to the Treasury. Should this item be included in the budget?

Thus we see that there are many important items of Federal financial operations which are not now included in the budget as it is administered by the Bureau of the Budget, and many items which are included in the budget about which serious questions can be raised.

It is apparent that if we define the "budget" to mean the financial arrangements that fall under the jurisdiction of the Bureau of the Budget, the term has neither economic, monetary, nor financial significance except as it is a part of a larger whole. Its significance is of an administrative character and the balancing of this "budget" is nothing but the balancing of accounts which have been associated for administrative convenience. There are, therefore, no intelligible issues of a financial or economic character associated with the budget so defined.

It is possible, however, to extend the concept of the budget, that is of financial planning, to include all the financial transactions of the Federal government. Such a budget would include not only the transactions under the Bureau of the Budget, but also those of all the other agencies which I have mentioned, and many more besides. Is this perhaps the definition that we wish to use in talking about the budget? Or is perhaps some other concept lying between?

It would make a certain amount of sense to define the "budget" to include all the financial transactions of the Federal government, except perhaps for the fact that this would be an unfamiliar usage. The reason for such a comprehensive definition is that it would make possible a clearer conception of over-all fiscal policy. The Federal government has the power to associate the totality of its financial transactions in a single scheme and, accordingly, it is possible to judge one item against another item and each item against the whole. The Federal Government may, therefore, have a policy with respect to such a comprehensive budget, and this policy would be the fiscal policy of the Federal Government. The fiscal policy applied to such a budget would therefore include as parts the expenditure policy, the tax policy, the borrowing policy, etc., and would transcend these particular policies in associating them within the over-all budget as a whole.

In any case, it is apparent that until we know precisely what we mean to include when we talk about the Federal budget, discussion of balancing the Federal budget is premature and meaningless.

What Does "Balance" Mean?

So much for the uncertainties and ambiguities that attach to the words "Federal budget." Now what about the word "balance?" What does it mean?

The term "balance" as it is used in connection with the Federal budget is much more difficult to define than is the term "budget" itself. This is due to the fact that the balancing of a budget may be looked at from either a financial or an economic point of view and the balancing does not come to the same thing in the two cases. Most people, I believe, think of balancing a budget in a financial sense, but what they seem to expect from such a balance is a balanced economic result.

When a budget is balanced in a financial sense what is generally meant is that dollars of income and out-go are equal; and that, since therefore there is neither a deficit nor a surplus, the debt of the Federal Government is neither increased nor diminished. This seems to be a simple enough concept, but when we try to apply it to some of the important transactions of the Federal Government, we find ourselves in some uncertainty.

Suppose the Federal Government lends money to Belgium and receives a one hundred year, 2% note, is the transaction balanced? Suppose the note bears no interest, what then? Suppose the payment is made and we receive a five hundred year lease on some naval bases? Suppose we make the payment for a billion dollars worth of gold? Or of gold and silver? Or of gold and silver and uranium ore? Take another example, suppose we sell surplus rolling stock in France and spend the proceeds on highways in the United States, are the transactions balanced? Suppose the Treasury subscribes to an additional 400 million dollars' worth of the stock of the Export-Import Bank, and the Export-Import Bank lends three billion dollars abroad out of capital which it sold to the Treasury during the preceding fiscal year, what is necessary to balance these transactions? Suppose the Export-Import Bank lends 500 million dollars to the Chinese to be available over a five year period for the purchase of Treasury gold in Fort Knox, to be held for Chinese account under earmark. What does balance mean in this connection? The United States subscription to the International Monetary Fund came out of the Stabilization Fund which was never in the budget. Was this a balanced transaction?

Some of these questions are relatively easy to answer if we look at them strictly from the point of view of financial transactions, but others present some difficulties and require exact definition if we are to know what the term "balance" means in even a financial sense.

But "balancing the budget" in an economic sense is much harder to define and uncertain to estimate. The objective of economic balance is clear, namely, we want to make sure that the impact of the Federal budget on the private economy is neutral, that is, that as much potential national income is removed from the people by taxation and otherwise as is restored to the people because of expenditures, disbursements and other income-creating Federal financial transactions. Here we run into a host of doubtful situations. Take for example the increase in the face value of E and F Bonds which is at the present time carried as an expenditure under the interest item in the Federal budget. Obviously this increase in face value adds very little to purchasing power in the hands of the people, and we are certainly not contributing to a balanced *economic* budget if we cover this bookkeeping entry by tax receipts. On the other hand, when the Government buys a million dollars worth of gold from a mine in California, purchasing power is increased by the disbursement and, although it might be contended that the transaction is balanced in a financial sense, it certainly is not balanced from the point of view of the effect of the transaction on purchasing power in the hands of the public.

A clear conception and approximate estimate of budget balancing from the economic point of view is much more important even than from the financial point of view, because it is out of the economic consequences of the Federal budget that we find the Federal Government's influence in creating inflation and deflation. It is impossible to assess the part that the Federal Government is playing in influencing the value of the currency without knowing a great deal about balance in the economic sense.

I think that I have said enough to illustrate how slippery the terms "budget" and "balance" really are and how doubly slippery they are when they are used together in the phrase a "balanced budget."

Tax Rates and a Balanced Budget

In spite of the necessity for much sharper definition, if we are to discuss all aspects of a balanced budget policy, there are some general issues which can be pointed up, no matter which of alternate meanings ultimately may be decided upon. One of the most important of these issues has to do with the setting of tax rates. Let us suppose that the budget (however defined) is balanced (whatever that means) at a high level of employment—not at a full employment boom which might quite properly yield a surplus to the Treasury. Under this assumption, for such a period we would have a certain national income, a certain budget of Federal expenditures, and a certain set of tax rates that would produce a balanced budget. Now let us suppose that we run into a period of significantly lower employment. We may be sure that Federal disbursements in such a period will tend to rise, if for no other reason, because of increased outpayments for various relief measures and the acceleration in the timing of public works. At such a time national income will tend to fall off because of the increasing unemployment. As a consequence, the tax rate structure, which was sufficient to balance the Federal budget at high levels of employment, will no longer be sufficient to do so, and we shall be faced with the choice (a) of permitting a deficit to appear in the budget or (b) of increasing tax rates at a time when employment is falling off. The policy of increasing tax rates against a declining national income in an attempt to maintain a balanced budget was followed in 1930 and 1931, and unless the understanding of the people has changed since that time, it may well be that this policy will be followed again with results that will be unfortunate, to say the least.

The emphasis which I have given to the necessity for definition in connection with the term "balanced budget" is not intended to be a mere exercise in word chopping. The maintenance of a high level of productive employment depends on the adoption of a sound fiscal policy, and a sound fiscal policy is impossible, except by accident, unless we are clear what a balanced budget means and what we intend to do about it.

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

A Sound Fiscal Policy

Business knows that fiscal policy alone cannot produce a healthy condition of high employment and high production. In addition to a sound fiscal policy there must be Government stability, protection against illegal aggression, confidence in the outlook for profitable relationships among volume, costs and prices, access to markets and to the means of production. But a sound fiscal policy will aid strongly in getting the high production and high employment we all want, and it will also check tendencies toward restrictive practices that spring from fear of insufficient consumer demand.

Today, to be sure, we are experiencing an unprecedented demand for the products of business and agriculture. This demand is the result of many years of shortages and of enormous purchasing power in the hands of the people. The demand in fact is so great that many restraints are necessary to keep it from expressing itself in an inflationary price rise.

In a period such as the present, when effective demand is so great that arbitrary regulations and unwelcome controls are still needed to prevent inflation, it is easy to forget that all through the 30's, and perhaps through the 20's too, effective demand was not sufficient to move the products which business and agriculture could produce. Nor have those corrections of past policies and practices been made which would give us confidence that such periods will not come again. It is for this reason that there is need to consider the balanced budget as a part of national fiscal policy as it relates to the maintaining of a condition of high prosperity.

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

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

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

Price Control and Inflation

(Continued from page 2508)

win this last round in the fight against inflation.

We won the battle of production during the war and we held prices within reasonable limits. In fact, we would not have been successful in achieving our war production goals if we had permitted runaway prices. It is in itself a great accomplishment to have increased our total production by about 75% and to have put nearly all of this increase into the war effort. To have done this with a moderate rise in prices is almost a miracle.

It is impossible to avoid some rise in prices under war conditions. When production must be increased quickly and shifted to new lines, some increase in costs is inevitable. Price increases sufficient to compensate for such increases in costs are necessary to let production go forward. Such price rises serve a useful function.

But price increases beyond the amount necessary to get the maximum possible output are inflationary. They decrease production instead of increasing it. Such price rises serve no useful function. They lead to speculation and hoarding of materials. They create maladjustments in the whole structure of production and prices.

Our price control during the war made it possible to get full production and to hold in check the powerful wartime forces of inflation. During the war, 12,000,000 of our most productive young men and women were taken out of agriculture and industry to go into the armed forces. About half of our total production went to war.

The people were paid for producing war goods for the Government as well as civilian goods for the people. No wonder they could not buy as much of everything as they would ordinarily have liked. Half of the income of the people could not be spent if inflation was to be avoided. Through heavy taxation and through voluntary saving, consumer spending was kept down throughout the war. Price controls prevented a shortage of goods from leading to the competitive bidding up of prices.

These price controls are still necessary during the reconversion period. I told this Committee over two years ago, when you were considering the extension of the Price Control Act in the spring of 1944, that an extension of the Act for a longer period than one year after the war would probably be necessary. As I said at that time, "... the most serious days will be the postwar days on the economic front."

The inflationary pressures which are generated by war continue during the reconversion period. They continue until we can finish tooling up for peacetime production; they continue until we can get the members of the armed forces back into industry; they continue until we can fill up the long pipe lines between the first stages of production and the ultimate consumer; they continue until we can satisfy the most urgent demands which have been pent up during the war.

Yes, the inflationary pressures continue for some time after the war, but the temptation to relax and let down our guard is great. This is the temptation which faces us today, and the temptation which we must avoid.

We must profit by experience. We have learned much from the experience of World War I in many fields. We can learn much from it in the field of price control also. In World War I, little reliance was put on the direct control of prices and production. Too many people accepted as dogma the doctrine that the Government could do nothing to control production and prices.

For this reason, price control in World War I was started too late and applied ineffectively. Except in special areas, such as food and fuel, it never operated under a clear-cut legislative sanction. As a consequence, prices rose twice as much in World War I as in World War II, although the war was much shorter and inflationary pressures were only one-half as great. I say only half as great, because about 25% of the national production went into the war effort at the peak of World War I, as compared with about 50% at the peak of World War II.

Shortly after the Armistice, such price controls as had existed during the last war were abolished. We all know what happened. Prices rose for another year and a half at an even faster rate than during the war. By 1920, living costs were 108% above 1914. And then came the collapse. Prices took a nose dive, as they always do after an inflation. The price of corn fell 78%, cotton 75%, tobacco 70%, hogs 66%, wheat 65%, and so for other products. Industrial production fell 33%.

We saw the effects of this deflation on the farms and in the factories. Net farm incomes dropped from $8,800,000,000 in 1919 to less than $3,000,000,000 in 1921. Factory employment fell over 30% during this period, and factory payrolls fell nearly 50%.

We do not want to repeat that performance. We do not have to. Our duty is to see that these same tragic events do not happen this time. We cannot afford to have half a million families lose their farms in the aftermath of another inflation. We cannot afford to have 20,000 bankruptcies a year because prices are first inflated and then collapse. That is why it is necessary to extend price control at this time. We must not repeat the mistake we made after the last war.

But I want to emphasize equally strongly that the extension of OPA is only temporary. There is no basis for the fear that price control of the sort exercised by OPA will become part of our permanent economic structure. The problems with which OPA is now dealing are caused by the transition from a wartime to a peacetime economy.

At the same time that I told your Committee, in the spring of 1944, that a one-year extension of price control after the war would probably not be enough to solve our transition problems, I also assured you that OPA would not become a permanent part of our economy. That statement still holds. You do not want it, and I do not want it. The President does not want it. We have been trying all along to get rid of price controls as soon as it is possible to do so without inflation. But we must be patient. We cannot gamble with the future of the American people.

The problems which the OPA has to meet are temporary in character. We are dealing with these problems in the one way that will finally solve them—by production. The basic inflationary pressures had their origin in the compelling necessity of devoting half of our production to war purposes for nearly four years. The war ended only eight months ago. In these few months since VJ-Day we have reached a level of civilian production never before equalled in this country. And this stream of production is steadily rising day by day.

Some people have asked where the production is going. Retail sales in this country in the first quarter of 1946 were at an annual rate of $89,500,000,000—60% more in dollar value and 22% more in volume than 1941. When you exclude the durable goods which are only beginning to come on the market, the increase in dollar value of retail sales is more than 85% and the increase in physical volume more than 40%.

Of course, there is a scarcity of many goods, despite the record volume of retail sales. That's because the public is earning more money than ever before in peacetime and wants to consume more than ever before. Folks who never had a proper diet are buying meat and milk and eggs. Folks who never could afford nice clothes and stockings are buying—or trying to buy—suits and dresses and nylons. I think it's all to the good to see this great demand. We can produce enough to meet it. But it will take time, particularly because the public has been short of these goods for five years, and because we are just returning to peacetime production.

Some of the goods produced are not going to consumers right now. They are going into tools and machines and working stocks for new and increased peacetime production. This is especially true of the durable goods. That is one reason the danger of inflation has not passed. It will not pass until we have finished the reconversion of production and filled the pipe line through which goods flow from the producer to the consumer. Not until there is a full flow of goods available for sale to consumers can we safely dispense with price controls. That will probably take another year.

The other side of this return of our economy to peacetime production—the side with which I am particularly concerned as Secretary of the Treasury—is that the Government is moving rapidly toward a balanced budget. We are reducing Government expenditures and paying off Government debt. Our fiscal policy is an important part of the progress to fight inflation.

The total expenditures of the Federal Government in April of last year amounted to $8,000,000,000. This April they were $4,200,000,000, a shrinkage of nearly 50%. This rapid decrease will continue until we are on a peacetime basis.

In the meantime, revenues have held up remarkably well. The reason for this is—as the President has said—"... we are well on the highroad to full peacetime production." The net receipts of the United States Government for the month of March—the last major tax month—amounted to $5,700,000,000, a decline from the same month last year of only about 17%.

As a result of these rapidly declining expenditures and well-maintained receipts, the Treasury showed a surplus of receipts in each of the months of February and March. There will be some net deficit during the remainder of this fiscal year; but the budgetary outlook for 1947 is very good. In the past two months, we have reduced the public debt by $7,000,000,000 from surplus funds in the Treasury; and this reduction will continue in an orderly way as rapidly as our finances permit.

In meeting maturing obligations, we have been particularly concerned to pay off the securities held by the banks. The only new securities issued since the Victory Loan Drive have been savings bonds and tax savings notes. We have continued to press the sale of savings bonds because they are one of the best ways to fight inflation.

The Treasury is going to continue to sell savings bonds to the people. When we ask the people to put their savings into these bonds, we must also give them the assurance that their savings will have 100 cents of buying power for every dollar. We must and will keep faith with the bondholders who have put their trust in the Government. The bonds they buy and hold help keep down inflation. They are doing their part in the fight. We must do ours. We must extend the Price Control Act, and we must extend it without crippling amendments.

I have great faith in the practical common sense of our people. They responded throughout the war to every appeal for more production, more taxes and more saving. The workers in the factories and farms, and the men and women in the fighting forces saved a very large part of their incomes. They are saving now. These savings are part of the great backlog of demand that can keep American production going.

What we do on price control during the next year will determine whether this great backlog of demand will bring prosperity or inflation. If we keep price controls a little longer—and keep them really effective—the accumulated savings of the public can result in a sustained demand for houses, automobiles, refrigerators and other goods for many years to come. But if we remove price controls too soon, these same savings will be used to bid up prices before goods have been produced to match the demand. This inflationary process can have only one result: the destruction of the savings of our people and, in the end, a disastrous depression.

Rising prices will hit a lot of people hard. No Senator needs to be told how quickly even a slow rise in prices eats into a fixed income. There are millions of people in this position—school teachers and white collar workers whose wages rise little and late; old people who after a lifetime of work live in modest retirement on their limited savings; disabled veterans, and the widows and orphans of our fighting men who depend on their small pensions to keep them going. These are the folks who feel inflation first and most.

Let's make no mistake about it. In the end, everybody suffers from inflation. That's because all of us have a stake in an economy that works, an economy that is stable. Inflation now means deflation later; and deflation means depression. Every worker, every farmer and every businessman suffers from depression. He suffers in unemployment and in lower pay; he suffers in unsalable surpluses and in unremunerative prices; he suffers in decreased production and in unprofitable business.

The danger of inflation is far greater today than it was in time of war. This is because so many people think that the danger has completely passed. We have nearly won the battle of peacetime production and reconversion just as we won the battle of production for war. We must not lose the fruits of that victory now by ruinous inflation which can only end in depression, unemployment and economic stagnation. Above all, let us keep faith with the American people who fought and worked to preserve a sound and strong America.

Handling Debt and Inflation Problems

(Continued from page 2506)
noe and the other paddle on the other side, and let's have only one person attempt to steer at a time.

Sound Fiscal Policies

While my comments are to be devoted to debt and some realistic appraisal of the value and efficacy of certain debt methods and policies, the Government's fiscal policy is too important to be completely omitted. Fortunately the present trends of tax receipts and Governmental expenditures are favorable. A greater economy in Government is definitely desirable, however, and could represent an important contribution to a healthy national climate. Basically the requirements of sound fiscal policies with respect to taxation and expenditures might be summed up in three points:

(1) The taxes that are to be borne by business managers and investors should not continue so high as to discourage the incentive and application of business leaders or to deter intelligent and confident investment in American business enterprises.

(2) Taxes on the bulk of our national income, i.e., the intermediate and lower brackets of income, should be adequate to meet by far the major portion of Government expenditures. It is particularly important that we avoid tax legislation and Governmental expenditures—both of these—that have as their primary purpose "to elect and reelect," or which tend to promote political ends at the expense of economic well-being. We might define the latter as a condition in which the general price level is relatively stable, with production and employment at a consistently high level, and with a fair distribution of the benefits of American ingenuity and effort divided between worker, management, investor and consumer.

(3) Treasury receipts during periods of high production must be maintained at some level reasonably above Treasury expenditures in order that we may steadily reduce the public debt.

Obviously fiscal policies must aim, as must those of debt management, at coping with the problems that are inherent in a stupendous accumulation of war-created money and an accumulated deficiency of goods and services against which this money can be spent. So far this money supply has been largely dormant and immobile; but the supply of money itself can be vastly increased because of a dangerous distribution of debt, and a structure of debt that might well be described as "out-of-balance."

Dangerous Distribution of Debt

The dangerous distribution of debt arises from the ease and wide discretion with which the public may relinquish its Treasury securities and cause them to be purchased by the commercial banks who already hold an undesirably large amount.

The "out-of-balance" comes not from the high proportion of short-term indebtedness which is outstanding, but from the combination of a large short-term debt and the persistence with which the Government attempts to maintain an inordinately low short-term rate strucure. This persistent policy has been a basic cause (and so remains) of what we popularly term monetization of debt. The increases in the money supply without an adequate offset to the supply of goods and services make the cost of this policy many times the presumed savings in interest on the public debt.

Monetization of Debt

Generalities and general terms are dangerous. A popular general term today is "monetization of debt." What does this term really mean? To me it means the method by which a non-productive debt instrument (Treasury securities) can be instrumental in increasing the supply of money available to the general public for the purchase of an existing supply of goods and services. Apparently one of the dangers that follows from a too general use of this term is that it is used as an excuse for the proposal of so-called inflationary controls, or legislation which would alter the extension of credit by an independent and flexible system of commercial banking.

For example, the extension of credit to business by banks is not monetization of debt. The Federal Reserve System was considered an ingenious and progressive step toward providing business, labor and agriculture with adequate credit as a means of insuring maximum production. The Government organized in the depression a large number of credit agencies because in spite of a flexible banking system, the national climate was such that an amount of credit adequate to the circumstances was not being advanced. Today we have an even greater number of Governmental agencies whose function it is to provide credit. To talk about monetization of the debt, and to assume that this and the attendant circumstances justify returning to a less flexible banking and credit system (such as existed prior to the Federal Reserve System), is to be thinking in circles and to advocate retrogression in our economic life.

Effect of Preferential Rate Removal

Considerable agitation preceded the recent elimination of the preferential discount rate of Federal Reserve Banks. This move has been held by leaders in banking as an appropriate, significant, and commendatory step on the part of the Federal Reserve System. I think it has been a tempest in a teapot and that the elimination of the preferential rate at this time, as a single step by itself, contributed practically nothing. The Federal Reserve Board and Banks apparently have had on their minds for some time the elimination of this preferential rate. I have been among those who have advocated its elimination. It has seemed to me, however, that the elimination was simply a detail to be coincident with the upward revision in all short-term rates that has to occur if any healthy and effective stabilization of long-term interest rates is to be achieved. When the elimination of the preferential rate is tied into a more or less public pledge on the part of the Board that its resources will be used to defend the ⅞% Treasury certificate financing rate, the practical result is a negative contribution. As a consequence of the action, and the pledge, it seems to me that a greater amount of Federal Reserve credit will be inevitably extended to the market (at the market's option) than would have been the case had the Federal Reserve Board sat in the boat until such a time as the Board and the Treasury could come to a more practical agreement on an upward revision of the entire short-term rate structure—one in which the certificate ⅞% rate is governing.

I say that the action is taken by the Board because the Board has to approve any changes in discount rates made by the Federal Reserve Banks. If it disapproves a change it can impose on the individual Federal Reserve Banks its own wishes with respect to the discount rate of that bank. When the Board approved such action only several weeks after the Secretary of the Treasury publicly stated that he did not think this was the time to make such a change, and when the Board simultaneously follows it up by "taking the pledge" one wonders why they approved the action in the first place.

Some are now strongly urging that the Treasury bill rate be unpegged from the ⅜% level. I fail to see how this (again as a single step) would accomplish anything. As of the moment the weekly reporting member banks hold hardly more than one billion of Treasury bills. If the bill rate were unpegged the chances are that many of the publicly held bills would simply be transferred into cash. Again I should add that I have favored an unpegging of the bill rate, but I have advocated it as a detail in Governmental action which would permit an upward revision and a more freely fluctuating short-term rate structure—a structure in which the ⅞% certificate rate is governing.

In the Board's statement accompanying its approval of the elimination of the preferential rate in certain Federal Reserve Banks it stated that this signified an appropriate adjustment from war to postwar conditions in accordance with the Government's program of economic stabilization. This apparently referred to the psychological value of its action. By eliminating the rate the Board removed a threat which had been hanging over the market and which constituted an item of some psychological importance. There was always the hope that when the time came for the elimination of the preferential rate it would be a part of an agreed upon policy within Government for an upward revision of all short-term rates. Now that the preferential rate has been eliminated the threat has been removed and we have instead a postwar pledge on the part of the Board to defend a ⅞% certificate rate and an accompanying low level of rates for short-term investments. Psychologically, therefore, it seems to me that the significance, if any, of this action is the reverse of what was intended.

Reducing Money Supply

The Board also said that the changed position of the Treasury calls for action that will stop additions to and bring about reductions in the country's money supply in order to reduce inflationary pressures. The changed position of the Treasury is a definite contribution to this end. It seems to me, however, that insofar as the elimination of the preferential rate is concerned the opposite is again true. Only last week one of the governors made a remark in a public address which could be subject to popular misconception. He referred to the fact that the current debt repayment operations of the Treasury reduced the amount of short-term securities in the hands of the banks, which securities may be used by them to obtain Federal Reserve credit and to monetize debt by the purchase from non-bank holders of long-term securities. Let us look at that.

The operation of the so-called commercial banking system may be said to comprise three different banking operations: One is the more or less temporary one in which the banks have been the custodian of large amounts of war loan deposits. During the war the flow of funds and the increase in deposits generally was such that not all banks secured war loan deposits by Treasury bills, Treasury certificates and other securities of one year term or less. Many of them rode with the tide and secured these deposits with 1948 1949 1950 1952 etc., maturities (or options) of Treasury securities. Now that war loan deposits are to be few billions many banks must readjust their collateral. In effect, therefore, we might say that the banking operation which consists of being temporary custodian for war loan deposits is one in which the banks will ultimately have held against these deposits Treasury bills, certificates and other one-year obligations.

The other two banking operations are, in effect, the operation of a savings institution (through the acceptance of time deposits) and the operation of a real commercial bank (through the acceptance of demand deposits). Let us look at the Government portfolios of the commercial banks in the light of:

(a) Their operation as a temporary custodian of war loan deposits, and (b) the joint operation of a savings and a commercial institution.

Maturities of Bank Holdings

As of Dec. 31, 1945, the weekly reporting member banks had (in the average) a Government portfolio with maturity distribution as follows:

Up to 1 year maturities	37.8%
1 to 5 year maturities	30.1
Over 5 year maturities	32.1
	100.0%

This security distribution, however, represented not only the operation of a savings and of a commercial institution but combined with this the custody of temporary war loan deposits.

As of the same date these weekly reporting member banks held war loan deposits of about $16.1 billions. $37.8%, or 18.3 billions, of these Government portfolios comprised securities of one year or less. In effect, therefore, these member banks held only 2.3 billions of one-year securities over and above their war loan liabilities. If, therefore, we exclude the war loan operations on the basis that war loan deposits under present circumstances require collateral of one-year term or less, then the Government portfolio showed the following maturity distribution:

Up to 1 year maturities	6.7%
1 to 5 year maturities	45.1
Over 5 year maturities	48.2
	100.0%

Obviously it is hardly practical to consider only the Government portfolio in relation to the demand liabilities. Other short-term assets should be properly included. But what I am trying to arrive at is the percentage and amount of up to one year Treasury securities which the banks have held during recent years against their savings and commercial deposits. We find, for example, that if we measure the Government portfolio against the total of the demand and inter-bank deposits of the same date (49.4 billions), excluding both war loan deposits and an equal amount of one-year or less Government securities, that the remaining amount of such securities was only 4.4% of the *demand* or *inter-bank deposits*. Securities of one to five years amounted to an additional 29.5%.

I am going to try and skip some of the detailed considerations of this analysis but there is one point that I should cover. As long as these banks held a very large total of war loan deposits (such as 18 billions) then, depending upon their view as to the stability of the war loan deposit totals, the short-term securities which they had earmarked against war loan liabilities could be used from time to time as money on hand with which to purchase longer obligations. Insofar as the preferential rate is concerned, however, there is very little evidence that banks sought, or took advantage of borrowings at the ½% rate either to purchase long-term securities or to make loans against such securities via others. The one exception to this is that banks in Central Reserve cities did, from time to time, borrow from the Federal Reserve Banks for purposes of carrying the short-term positions of Government security dealers. This could hardly be termed a speculative use of credit by either the dealers or the banks. As a matter of fact there have been periods within the last 60 days in which the objective of the Federal Reserve open market operations obviously was to cause dealers to carry larger certificate positions as a means of money market control.

Changes in Last Two Years

I have given you two tables. I won't go into the methods by which the estimates in these tables were computed. I think that for our purposes they are reasonably accurate.

You will note in Table I that we show the amounts and percentages of the three maturity classifications of Government securities held by the weekly reporting member banks by quarterly dates over the last two

TABLE I

Distribution of the Government Portfolio of Reporting Member Banks in 101 Cities, Classified by Maturity Groups

	Maturities of 1 Year or Less		Maturities of 1 to 5 Years		Maturities of Over 5 Years	
Date	Amount	Percent	Amount	Percent	Amount	Percent
	(Billion dollars)					
3-31-44	13.8	36.9%	9.9	26.5%	13.7	36.6%
6-30-44	15.8	39.1	10.3	25.6	14.3	35.3
9-30-44	14.7	36.9	10.9	27.2	14.3	35.9
12-31-44	14.5	33.6	14.1	32.7	14.6	33.7
3-31-45	15.6	36.1	13.0	30.0	14.7	33.9
6-30-45	15.3	32.8	14.7	31.6	16.6	35.6
9-30-45	15.4	34.2	14.9	33.1	14.8	32.7
12-31-45	18.3	37.8	14.6	30.1	15.5	32.1

Estimated Distribution on the Assumption That the Treasury Policy of Debt Reduction Is Completed by June 30, 1947, and That All Refundings Are Made With Obligations With a Term of One Year or Less

	Maturities of 1 Year or Less		Maturities of 1 to 5 Years		Maturities of Over 5 Years	
Date	Amount	Percent	Amount	Percent	Amount	Percent
	(Billion dollars)					
6-30-47	10.1	28.6%	16.9	47.9%	8.3	23.5%
6-30-48	12.7	36.0	17.7	50.1	4.9	13.9
6-30-49	16.1	45.6	14.6	41.4	4.6	13.0

years. At the bottom of the table you will find a projection of what would occur to this distribution should the commercial banks make no changes in their existing portfolios, and if the Treasury continued to refund its obligations into securities of one year or less.

You will note that by June 30, 1947, the holdings of up to one-year maturities of the weekly reporting member banks would be 10.1 billions and I can tell you that this analysis corresponds to a Treasury working balance at such a date of 3½ billions. In other words these commercial banks would have between seven and eight billions more one-year securities than would be needed to offset their war loan requirements. This is a greater "excess" than existed in any of the earlier periods. You will note also that by June 30, 1949 (under the same suppositions), that the one-year or less holdings would increase to 16.1 billions.

Incidentally, I have found it curious that so much recent emphasis has been placed on the desirability of getting long-term issues out of the commercial banks into the hands of non-bank investors. You will note in Table I that from March 31, 1944, through Dec. 31, 1945, issues over five years have increased only 1.8 billions of dollars, and that the end of the year figure was 1.1 billions less than that of June 30, 1945. You will also note that the amount of Government securities of over five-year term is reduced by time alone from 15½ billions as of December, 1945, to 8.3 billions as of June, 1947, and 4.9 billions as of June, 1948.

TABLE II

Distribution of the Government Portfolio of Reporting Member Banks in 101 Cities Classified by Maturity Groups—After Setting Aside Maturities of One Year or Less Equal in Amount to the War Loan Deposits Held

	Maturities of 1 Year or Less		Maturities of 1 to 5 Years		Maturities of Over 5 Years	
Date	Amount	Percent	Amount	Percent	Amount	Percent
	(Billion dollars)					
3-31-44	3.5	13.0%	9.9	36.5%	13.7	50.5%
6-30-44	3.2	11.4	10.3	37.2	14.3	51.4
9-30-44	5.5	17.8	10.9	35.4	14.3	46.8
12-31-44	.7	2.3	14.1	48.1	14.6	49.6
3-31-45	6.3	18.6	13.0	38.2	14.7	43.2
6-30-45	.2	.7	14.7	46.7	16.6	52.6
9-30-45	5.9	16.6	14.9	42.0	14.8	41.4
12-31-45	2.2	6.7	14.6	45.1	15.5	48.2

Estimated Distribution on the Assumption That the Treasury Policy of Debt Reduction Is Completed by June 30, 1947, That All Refundings Are Made With Obligations With a Term of One Year or Less, and That the Treasury Working Balance Remains at $3,500,000,000

	Maturities of 1 Year or Less		Maturities of 1 to 5 Years		Maturities of Over 5 Years	
Date	Amount	Percent	Amount	Percent	Amount	Percent
	(Billion dollars)					
6-30-47	7.7	23.5%	16.9	51.3%	8.3	25.2%
6-30-48	10.4	31.5	17.7	53.6	4.9	14.9
6-30-49	13.7	41.7	14.6	44.3	4.6	14.0

You will note in Table II that we have shown comparable amounts and percentages to those of Table I but we have taken away from the Government portfolio an amount of one-year or less securities equal to the total of war loan deposits. I thought this might give some indication of the percentage of the Government account in one year securities or less that might be set against the savings and commercial bank operations and would also show the maturity distribution of longer holdings against these same deposits. I think that this table clearly shows that the shortening of portfolios by the passage of time gives these banks over the next one to three years a far larger total of one-year or less securities than they have had at any time in the last two years after we offset war loan liabilities with shorter-term securities.

You will note also that the percentage of short-term Government securities as of June 30, 1947, 1948 and 1949 that could be set against the savings and commercial operations would be far larger than any percentage which happened to exist during the last two years. In other words, it might well be a mistake to assume that the Board's pledge to support the ⅞% rate can be weighed on the premise that the commercial banks will have available only a *decreasing* amount of one-year or less securities. Over the next few months some commercial banks may feel strapped insofar as their holdings of these securities go—but this is temporary.

Obviously the future relationship of Treasury expenditures and receipts, and the investment requirements of Treasury trust funds can materially alter the situation. For example, if in the fiscal years ending 1947, 1948 and 1949 a sinking fund were operative and the investment requirements of trust funds totaled three to five billion dollars, the combination might, if applied solely to a retirement of outstanding short-term securities, materially reduce the ability of these banks to use the short-term holdings indicated for purposes of monetizing debt. But if the Treasury is to have an excess of receipts which can be used for sinking fund purposes and if trust fund investments are to be as large as three to five billions, then it must follow that we will have a relatively high level of production, employment and prosperity. Under these conditions it might be necessary for the Federal Reserve System to see also that the commercial banks have adequate reserves with which to extend credit to industry, labor and agriculture. Could it be that the maturity distribution of the commercial banks would require that Federal Reserve open market purchases be made in maturities of from two to five years? Can we afford to overlook the possibility that Treasury securities held by other than commercial banks might be tendered for payment and absorb the Treasury funds with which it was hoped to reduce any excessive short-term holdings of the banks?

Treasury Bill Rate vs. Bank Operations

The one evident fact is that while we talk about the preferential rate, etc., we are steadily and surely approaching the inevitable clash which is inherent in the desire of the Treasury to continue the existing short-term rates, the pledge of the Federal Reserve Board to support this desire, and the need to maintain a flexible banking system capable of extending an adequate amount of credit with which to sustain production.

In the beginning I said that generalities were dangerous. I hope that this superficial analysis underscores the dangers of general assumptions, and of being satisfied with apparent adherence to so-called orthodox principles which, by their nature, are also generalities. It is necessary to sound fiscal policy, and to sound debt management that both of these be coordinated with the *detailed* requirements of our situation. Unless we continually study these details, we are liable to walk only through mists of confusion to the undesired consequences which are clearly foreseeable.

Question of Refunding Short-term Debt

I would like to deal more fully with one of the generalities which I have mentioned as being subject to considerable publicity and emphasis, namely, the desirability of refunding the short-term debt into long-term debt and to thus absorb some of the past and future accumulations in money supply. First of all, the way our national finances, etc., are set up—and I have tried to make this clear—we really *need* a large short-term debt. The trouble has been that the Treasury seemed to become too obsessed with the degree by which short-term debt could lend itself to a reduction in the interest burden of Treasury borrowings. Consequently the short-term rate was held inflexible at a level where, in conjunction with the interest rate controls and Drive methods, the commercial banks were encouraged to engage in needless monetization of the public debt.

For example, less than a year ago the Treasury offered a 5½-year 1½% issue. This ostensibly was in response to the understandable desire of the War Finance Division to have some security available for sale with a maturity in-between a one-year certificate and a 14-17-year 2¼%. Such a term had to be fitted into a rate structure that started with ⅞%, and that is why the coupon rate was only 1½%. As of Jan. 31, 1946 (seven months later), about 60% of this issue was held by 7,000-odd commercial banks, although at the time of the offering commercial banks were permitted to subscribe in only smallest amounts. That this would be the result was discernible to everyone at the time of the offering.

The generalization that short-term debt should be refunded into long sometimes carries with it the assumption that the refunding issues should be made sufficiently high in coupon rate to attract the funds of non-bank investors. In the first place, if we succeeded in attracting a substantial portion of the funds of non-bank *financial institutions* (and thereby deprived productive enterprises of these funds) it might take us as long as five years to refund 10 billion dollars of short-term debt.

Please note in Table II that by 1949 the weekly reporting member banks alone could conceivably have in their portfolios 15 billions of one-year securities and 15 billions additional of up to five-year securities.

What rate is necessary to make long-term Government securities attractive? If the rate on long-term Government securities is increased would not the rates on all long-term investments move higher? If we continue wedded to the existing ⅞% certificate rate would not higher long-term rates provide additional incentive to the commercial banking system to sell as many short-term holdings as they possibly could in order to buy such longer-term securities themselves?

Furthermore, if it were required that the long-term rate should be a higher coupon than 2½% (and we hear a number who say that it should be 3%) would that not add to the instability of interest rates, and possibly create a run on Treasury securities that would end in one of the greatest financial debacles of our time? I wonder sometimes if those who advocate long-term interest rates higher than 2½% would like to assume responsibility for the consequences of their advice if it were adopted.

I have taken a great deal of time. I have tried to throw some practical considerations and analyses against some of the generalities and general appraisals which are currently prevalent. With regard to practical investment problems—I don't think that we have yet found any practical solutions to our interest rate and money supply difficulties that are likely to produce sound and desirable results. I think that perhaps we can be grateful that under these circumstances the Treasury is taking a cautious attitude. I hope that the Federal Reserve Board as a whole agrees with the Governor who said that he believes that this is no time for drastic actions either in the field of interest rates, or for drastic changes in the banking and credit systems of the country via legislative or other means.

Lower Interest Rate Tendency Halted

Fortunately the movement toward lower interest rates has been halted. I believe this halt is a temporary one because, as I see the over-all picture, the natural forces of supply and demand oddly enough continue to exert pressures toward a 2% level for longer-term Treasury issues. The recent market action originated from technical factors. The mechanics of monetization continue with us. The supply of Treasury securities which has served to offset the trend toward lower interest rates has been removed by the change in the Treasury's position. As we move through the next few months during which the heaviest period of debt repayment will occur, and simultaneously move into the beginning of the period when long-term gains can be taken on recently acquired temporary holdings of long-term Treasury issues, I believe that we will find that the basic forces will assert themselves with a steady and increasing pressure toward higher prices and lower yields.

It seems to me that for some time to come we must be content with such stabilization of long-term interest rates as may come from rather infrequent offerings of long-term Treasury 2½% or 2¼% issues. This means that we can hope for stabilization in open market rates only within the limits of around 2¼% to 2%. Unless the entire short-term rate structure is unpegged and permitted to fluctuate within some higher range such as 1¼ to 1¾%, the probability seems to be that Treasury long-term open market interest rates may again head toward a 2% level.

Now Scheffmeyer McKinney

The firm name of Scheffmeyer & Co., 26 Broadway, New York City, members of the New York Stock Exchange, will be changed to Scheffmeyer, McKinney & Co.

Railroad Traffic Topics

(Continued from page 2507)

Problem of Freight Car

These optimistic remarks do not apply with equal emphasis to the subject of freight cars, either as to quality or availability. In fact, the problem of the freight car has become in recent years a chronic *Timely Traffic Topic.* It is indeed a vital and serious question.

Shippers usually take freight cars for granted. We usually expect the responsible railroad to supply as many empty cars of proper size, type and quality, with reasonable promptness, as we may request. This happens so often that proper car supply is taken as a matter of course, a sort of natural right enjoyed by shippers. There is, unfortunately, much doubt that this happy situation can continue.

At present there are five factors that work against an easy and plentiful car supply situation. There are:

first, poor condition of many freight cars;
second, lessened effectiveness of federal heavy loading regulations;
third, elimination of overtime and sixth day work by shippers and receivers;
fourth, application of government freight car loading priorities, and
fifth, return of peacetime competitive conditions.

As to the poor condition of freight cars, ample evidence can be mentioned without taking time for lengthy statistical discussion. About one year ago, the number of cars listed as bad order was 2.3% or one freight car in 43. Today the bad order record has almost doubled, to one in every 23. What probably has happened is that railroads have returned to peacetime repair and maintenance standards. Many of the cars in the increased bad-order list are too costly to repair and are waiting to be scrapped. That is simply another way of stating the well-known fact that freight car construction was held, during the five-year war period, below the replacement level. The total number of usable freight cars is less today than five years ago.

Less easy to measure, but equally apparent to shippers and receivers, is the condition, or quality, of the average freight car. Freight cars are not in as good condition as they were five years ago. This fact is especially noticeable and troublesome with respect to box cars. The present shortage of lumber, aggravated by federal regulations, makes the supply of first quality box cars very much of a lottery. All freight cars, however, and especially those requiring lumber for floors such as mill-type gondolas, are in worse condition than before the war. Freight car condition has a direct effect upon the speed of loading, unloading and movement. It follows that our freight-car fleet in the United States is not only smaller than before the war, but is also less efficient and useful.

Heavy Loading of Freight Cars

Everyone knows that ODT orders No. 1 and No. 18-A, requiring heavy loading of freight cars, added about 10% to the actual effective size of our freight-car fleet during the peak war years of 1943, '44, and '45. These orders were so generally observed that it was just as if we had built 10% more cars—better, in fact, because there was less strain on such other factors as yard facilities and locomotive supply than would have resulted from handling the larger number of cars.

Since the end of the war, the natural and inevitable trend toward disregard of ODT orders No. 1 and No. 18-A has accelerated. This is illustrated by the weighted average loading figure represented by net ton-miles per loaded car-mile. For the year 1938 this loading figure was 26.1 tons. By 1941 the average loading was 28.4 tons and in July 1943 the figure reached a peak of 33.9 net ton-miles per car-mile. Since that time there has been a steady decline and in August of last year, at the end of the war, loadings thus calculated averaged only 32½ tons with the figure for January showing a continued decline to only 32 tons.

There are unanswered questions in my mind as to ODT orders 1 and 18-A. Does their continuance make an important contribution? Can they be enforced? Can voluntary shipper cooperation necessary for their enforcement be obtained?

An important aspect of the car supply situation is the change in loading and unloading conditions. This is an example of the difference between normal peacetime business considerations and the problems of a nation at war. During the war, there was an urge for speed and more speed. The extra costs of speed could be charged, for the most part, to war expense. That is not true today.

It is unrealistic to expect shippers and receivers to spend money for overtime, and especially for sixth and seventh day work each week, in order to speed up their freight car loading and unloading operations. They will not do it. As a result, the total number of cars required to handle the present and expected high level of peacetime business must be larger than would be true under wartime conditions.

Loading Priorities

Another factor, potentially of great importance, is the decision of the federal government to experiment with the application of loading priorities. This refers to I.C.C. Service Order No. 450, first published effective February 17, which was suspended on March 30, 1946. This Service Order, issued in compliance with a Presidential executive order, required certain railroads to spot empty cars for export grain loading ahead of, and, if necessitated by inadequate car supply, to the exclusion of other car supply requirements. Another such order is Service Order No. 458, effective March 5, and suspended March 30, giving priority to cars ordered for loading at country elevators with grain for terminal elevators. These orders set aside and defeat the legal obligation of the railroads, long recognized as a basic principle of transportation equity, to treat all shippers alike. The orders legalize, and require discrimination in distributing an inadequate supply of cars, in favor of certain shippers and designated types of shipments.

During all the dark years of World War II, this issue of government enforced preferential loading privileges often raised its ugly head, like a venomous snake watching for the moment to strike a death wound into our national transportation system. The fact that, during the difficult car supply years of 1942, '43, '44 and '45, no preferential freight car loading orders were issued, speaks for itself. There is no merit in such a device. Freight car loading priorities, if generally established, would waste millions of car days and thousands of yard switching hours. Each car would have to be moved from unloading point to assignment yard, then to an exact loading point, regardless of how much time was wasted, or how many waiting loads were bypassed. A few simple words in a government preferential loading order thus can take away all the marvelous flexibility of car supply.

Return to Peacetime Competitive Conditions

The last factor, adding to our already serious car supply condition is the return, or at least the attempted return, of both railroads and other business enterprises to peacetime competitive conditions. Competition inherently entails a certain amount of waste. For example, two railroads operate fast freight trains over parallel routes between main terminals, dividing between them the total tonnage which we will assume, is not sufficient to permit the profitable operation of two trains daily. If the two railroads could operate on alternate days, both would make money. Otherwise, both may lose money.

During the war, the immense national war traffic had to be spread by government agencies over nearly all railroads. In this way, all railroads received fill-out tonnage that both permitted and forced efficient use of equipment. That situation is now largely over. Railroads are again competing for their share of the reduced available business.

Industrial and commercial enterprises are also getting back to peacetime competitive conditions. Each business has its own problems, and makes requests for numbers and types of cars suited to its own needs. To meet this demand, railroads must build up little reserves of pools of empty cars at strategic points along their lines. In this and other ways not requiring further illustration, competitive forces act to increase the demand for cars.

Remedies

Durnig the next five years American business should be excellent. This will be the critical period for freight car supply. What should be done to meet this problem, and thus to help assure a healthy railroad transportation system for the long future in this country?

First, in my belief, is the prompt elimination of the present defective condition of freight cars. This is easy for traffic executives to demand, but not so easy for railroads to accomplish. It is necessary to make constructive suggestions, which can be tested and judged by our competent railroad executives and government officials.

One suggestion offered for such study is that the railroads return to prewar car service rules during the winter months of each year. It is urged that for four months, December through March inclusive, all cars be required to move empty or loaded to their home lines. During the other eight months of each year, the present car service rules, more lenient in this respect, could be applied.

This suggestion is made because each railroad has a greater incentive to maintain cars of its own ownership. It seems certain that cars that seldom or never return to their owner lines do not get as careful inspection and repair as do cars on their home road. Regardless of current difficulties in getting lumber and steel, there can be no doubt that cars would be better repaired if the cars on railroad repair tracks were their own.

Another advantage of the return of cars to their home lines would accrue in the improvement in purchasing policy. One often hears the claim, today, that many railroads do not have in their own ownership the types of freight cars needed by their own on-line customers. To some extent, this is undoubtedly true. The tonnage characteristics of on-line business have changed faster than have freight car purchasing practices. It follows that the return, each winter, to the old or prewar car service rules would result in better understanding by each railroad of its actual freight car requirements. Each railroad would feel more urged to take action necessary to meet these requirements.

Another suggestion, offered for careful study by railroad executives, is that railroads buy or build better freight cars. There are some good reasons why the total freight car fleet in the United States need not be increased. After World War I the number of freight carrying cars was reduced from the peak of 2,357,221 in 1925, to 1,756,343 in 1943, and 1,773,049 in 1944. This lesser number of cars did a bigger job during World War II than during the previous war. The present number of freight carrying cars has now declined to 1,765,483 in January 1946. There is no reason to believe that this trend, toward reduction in the total number of cars, will stop. It follows that freight cars must be built better, just as was the case after World War I.

There are three ways to make freight cars better. They can be designed to perform their function more perfectly, they can be made lighter and their components may be improved in quality and design; for example, better wheels contribute much to the efficiency of a freight car. Functional design does not necessarily mean one-purpose and no-return-load cars. It might be well to add, however, that functionally designed one-purpose cars, such as device-equipped cars for automobile or other loading and covered hoppers for dry bulk materials, are unduly criticized by throwing at them the no-return-load argument when, in fact such one-purpose cars do get some return loads. The important point is that such cars hold certain traffic to the rails that would otherwise move via other methods. The present low interest rates for money, and the low maintenance cost of well-built cars makes one-purpose cars a very good investment. There should be more exploration and exploitation of this profitable field by our American railroads.

An important way to make the vast fleet of American freight cars better, as it is slowly rebuilt in future years, is to make each car lighter. Much progress has been made in design of lighter cars to perform the same function. These lightweight designs have been worked out in various materials including, of course, Cor-ten steel, and the similar products of other steel manufacturers. I will make no attempt to evaluate the various materials, but I could not help yielding to my own partiality and preference for steel—still the foundation metal of modern civilization.

A prominent railroad executive, in private conversation, asserted recently that his company could not afford to pay the slight extra cost for light-weight construcion of new freight cars because of the present car service rules. He meant that such new cars would spend too little time on his line—too much time elsewhere. Viewed nationally, the railroads would haul less deadweight per car. From his own railroad's viewpoint, not enough of this deadweight saving would appear on the tonnage sheets of his trains. This is another argument for the return of freight cars to their home lines during at least part of each year. The present car-service rules do not encourage improvement in freight cars.

In 1938, before war conditions or even high-level industrial prosperity affected the figures, American railroads performed a total of 912 billion gross ton-miles of freight service, of which 290 billion were revenue ton-miles. In other words, for each ton of freight earning revenue for the carrier, the average railroad moved 2.1 additional tons of locomotives and tenders, empty freight cars and company freight, chiefly empty freight cars. Net railway operating income before taxes in that year was 29.7% of the freight revenue.

In 1944, the peak year in freight traffic during the war, the railroads performed 1,878 billion gross ton-miles in freight service of which 737 billion were revenue ton-miles. The effect of the war was not only to increase revenue freight tonnage but also efficiency. The number of dead-weight ton-miles hauled per ton-mile of revenue freight dropped from 2.1 tons to 1.5, or 35%. The comparable ratio of net railway operating income to freight revenue increased from 29.7% in 1938 to 31.6% in 1944, despite the heavy increases in unit costs, illustrated by a rise of 29% in average compensation per hour.

The average American freight car, including all types, weighs 23.6 tons. Lightweight construction can reduce this weight at least 4 tons, or 17%. Think what this would have meant, in either 1938 or 1944. Operating costs would have been reduced, since 12.8% less total deadweight ton-miles would have had to be hauled. Additionally, the ratio of deadweight freight ton-miles to revenue freight ton-miles would have gone down. Each car hauling the same revenue load would be lighter. When filled to weight limit capacity each car would consist of 4 more tons of revenue freight and 4 less tons of deadweight. This is a matter of importance to every railroad.

Effectiveness of Heavy Car Loading

There is much question in my mind as to the present effectiveness of federal heavy loading regulations. The slump in enforcement, or rather enforceability, as measured in the lessened average load per freight car, has already been noted. On the other hand, these federal orders probably contribute just the small degree of help needed to keep our car supply situation from being one of chronic serious shortage. The abandonment of these orders, without an effective substitute, is certainly inadvisable.

My own preference is for rapid and complete abandonment of all the wartime controls of railroad transportation. Such a seemingly drastic step would permit normal peacetime conditions to reappear. Supply and demand, competition, the profit motive and other common-sense considerations, would be made workable by purely voluntary cooperation. The great and effective work of Shippers' Advisory Boards would again take the spotlight on the "traffic stage," and the car shortage situation would be met and solved.

Unfortunately, there is little or no evidence that the Federal Government is going to abandon immediately and completely its pattern of wartime controls. "Tapering off" seems to be the order of the day. Under these circumstances, ODT's heavy loading orders, Nos. 1 and 18-A, apparently will be continued until made unnecessary by persistent freight car surplus, or until some equally effective substitute is found.

A year or more ago, railroad executives began studies and made proposals toward finding voluntary or peacetime substitutes for the federal heavy loading regulations. There have been hearings and suspension proceedings, but almost no results that could be measured in heavily loaded freight cars.

The right to include in the rate tariff an appropriate minimum weight has been a valuable privilege. It has been cherished and fought for by shippers, receivers, and railroads. The published minimum permits a railroad to adjust the relatively fixed size of its freight car unit to meet actual commercial and competitive conditions. It is important to realize that there never was a time when this privilege was more vulnerable than now. Government can continue to nullify this valuable privilege by requiring maximum loading. It can improve and establish more effective enforcement procedures for its own heavy loading orders. It can make ODT orders 1 and 18-A permanent, a possibility to be avoided at all costs.

One suggestion offered for study by shippers and railroad executives is that a reasonable and suitable loading allowance be established and paid. Railroads, in other words, would make an allowance payment to shippers on such cars as meet its predetermined loading test, such as containing double the published minimum weight. The allowance could not exceed the actual costs incurred by the shipper. Within this limitation, such an allowance would, in many industries, provide financial encouragement or incentive toward heavy loading of freight cars.

Another suggested plan, also being studied by carriers and shippers, is to raise the published minimum weight per car and lower the corresponding freight rate. This is the double minimum freight rate plan. A variant is the special reduced freight rate on the excess load, such as the second carload loaded as a double tier within one freight car. Still another varitaion is to increase the minimum and reduce the freight rate, retaining by this process only one carload freight rate and minimum.

If these methods are tried and if they fail, more drastic steps may be expected. Railroads may be forced by the car shortage problem, which seems to be ahead of us, to consider raising the commercial published minimums without any freight rate or loading allowance incentive to the shipper. The carrier's argument in favor of such a step is familiar. During the last 20 years, the argument runs, average freight car capacity has increased and this increase can be made useful only by a compulsory and commensurate increase in published carload minimum weights.

Many railroad executives, today, find it much too easy to take the short next step of asking the federal government to solve the heavy loading problem. There is, undoubtedly, general support among railroad officials for temporary continuance into the indefinite future of ODT orders 1 and 18-A, thus requiring both LCL and CL shippers to meet federal loading standards.

Balancing these various problems leads to the conclusion that federal regulations requiring heavy loading of freight cars will continue for the present. Shippers should, however, redouble their efforts to work out and have published voluntary loading plans that will make such measures as ODT orders 1 and 18-A unnecessary.

The other factors in the present sombre outlook for adequate freight car supply can be dealt with together. In essence, the fact is that railroads and also shippers and receivers have returned to peacetime competitive practices. The problem is what to do about it. This usually turns into the question of what government action or interference can or should be taken. We seem to be at the point in this country where even the results of healthy competition become arguments for additional federal regulation and control.

Elimination of overtime by shippers and receivers is a knotty problem indeed. The five-day week does dam up and dislocate freight car supply. The turnaround time of the average freight car is lengthened by a substantial amount, perhaps more than 10%.

During recent years, there has been an increasing use of penalty demurrage. There certainly is a relation between this trend and the five-day week. Penalty demurrage is government's answer to the employer who is reluctant to pay for overtime work. If the penalty is large enough, it becomes cheaper to pay overtime than to hold the freight cars and pay demurrage.

An exasperating phase of wartime demurrage practices is the continuance of the demurrage average agreement "two-for-one rule." This requires two credits to be earned, in order to offset one debit. This penalty system causes the receiver to pick and choose his unloading with a view to making the maximum number of credits. The car that is difficult to unload, for any reason, tends to be unduly delayed, which in turn becomes an argument for penalty demurrage rules. The two-for-one rule is unfair and should not be continued.

A further and final suggestion is offered, that every effort be made by our government to get along without imposing penalty demurrage. It is urged that the most effective remedy to apply to any undue accumulation of cars has been and continues to be the embargo. Spot or localized embargoes can and will do a better control job than penalty demurrage, if properly applied and effectively enforced.

One thing is certain in this time of perplexity. Shippers and railroads must not fail to explore and try every arrangement and plan which can improve the efficiency and reduce the costs of transportation service. Improvement in the use of freight cars by heavier loading, faster loading and unloading of cars, and reducing the ratio of deadweight of equipment to revenue tonnage of freight traffic transported are imperatives.

My hope is that this brief discussion of these difficult car shortage and car supply problems will help in your studies and your search for proper solutions.

Briefing the New NASD Registrants

(Continued from page 2503)

them in their duties as if they were entering their novitiate in the securities field.

Amongst other matters on which instructions are given is the "5% policy."

The NASD "interpretation" on this subject is dealt with as is also the "practice of the membership, as indicated by the analysis of the questionnaires, . . ."

Call it what you will, and despite persistent denials, we believe it to be an attempt to control spreads and profits in violation of what we regard as the democratic processes.

A fair account should have prompted some reference on this subject to the Opinion of the Securities and Exchange Commission, and its Order of Nov. 25, 1944, wherein it was held in effect:

(a) That the statement in the NASD letter of Nov. 9, to the effect that in transactions showing a mark-up of over 5% on the part of a member, "a duty is imposed upon the member to show to the satisfaction of the District Business Conduct Committee that no violation has occurred" was in error; that this letter was not distributed among NASD members but was sent to the various District Business Conduct Committees, over the signatures of the Board Chairman and the Association's Executive Director, and that the Board of Governors does not appear to have authorized or voted upon the statement in question;

(b) That the Commission expressly recognized and found that "pertinent circumstances other than the percentage of mark-up must be taken into account and that a reasonable mark-up may sometimes be less and sometimes more than 5%"; and

(c) That the Commission specifically said in its opinion, "we therefore think the statement on this point in the letter of Nov. 9 is erroneous, and believe that, if a trade practice case were decided on the basis of the presumption stated, it would be our duty to set aside the determination upon review."

Since the SEC power of review and interpretation was invoked on the subject of the NASD 5% spread philosophy, we think it only proper that a fair account of what transpired should contain reference to the Commission's opinion and some of the details of the Commissioners' interpretation.

We have never been able to ascertain either from the SEC or the NASD what the elements are which should go into the composition of "a fair spread or a fair profit."

In fact, in the very article to which we advert, it is emphasized that it would be impractical and unwise, if not impossible, to write a rule which would attempt to define specifically what constitutes a fair spread or a fair profit.

This nebulous situation of the inability to define by rule the terms "fair spreads and fair profits" and the elements which go into them, accompanied by the numerically increasing regulations and interpretations which are aimed at circumscribing spreads and profits, create ever-increasing hardships for those in the securities field, and prove ever more burdensome shackles upon the free flow of venture capital.

What is the average dealer to do? How is he to conduct himself? What margin of spreads and profits may he take with reasonable assurance that he is dealing fairly and is not properly subject to criticism?

We wish that it were possible for us to create numerical tables that would be decisive. However, from the very nature of the questions and the field these questions affect, this is utterly impossible. Even if it were possible, such yardstick would violate our American precedents.

So many elements go into these questions that the impossibility becomes self-evident; for example, the particular position taken in a security, the time it was held as part of a firm inventory, the time devoted to an investigation of the background, including the assets behind the security, the cost of doing business, etc. All these elements and many others are involved.

In our opinion no formula percentage-wise can have the effect of law through any mere interpretation, and without legislative action, and even if the Legislature attempted definition we have grave doubt that such law would be valid on Constitutional grounds.

WE BELIEVE THAT THE REAL REFUGE CONCERNING SPREADS AND PROFITS LIES IN THE OBSERVANCE OF TRADE CUSTOMS AND USAGES IN THE SECURITIES FIELD.

Such customs and usages, although these be constants in particular areas, may vary in their application to exchange markets and to over-the-counter trading. The dealer's refuge lies in observing those prevailing in his district.

We believe that on the Board of Governors of the NASD there are forward-looking progressives who can take hold of the cudgels and eradicate efforts to by-pass the customs and usages in the securities field by administrative interpretation, men who realize that questionnaires which lump all types of securities and give no consideration to individual effort form no just criteria for attempts to control spreads and profits.

To herd and regiment securities dealers and limit their activities in a wholly legitimate field because a dishonest few violate the law is doing grave injustice to an outstanding honest industry which plays an important part in our economy.

Not only the members of that industry but business in general must suffer as a corollary.

There continues to be an imminent need for leadership to remove the autocratic and restrictive pronouncements towards which administrative bodies are heading in their efforts to control spreads and profits.

Senate Silver Bill to Face House Opposition

(Continued from page 2516)

shown its displeasure with the existing silver subsidy, would be unlikely to accept now the $1.29 proviso, although the necessities of silver-consuming industry might necessitate accepting the 90.5¢ provision previously described in these pages.

Rep. Frederick C. Smith of Ohio, long a critic of the silver statutes, when asked for his views had this to say: "I am opposed to all Government price fixing. This Senate silver proposition after all is aimed at further debasing the currency. It is another inflationary move and certainly this is no time to make a proposal of this sort, while the Government claims to be trying to curb inflation.

"As for the tax-repeal feature proposed in the Senate, insofar as the present statutes empower the Government to control the silver market, I am against such control. Thus, I oppose the present tax and favor its repeal." Mr. Smith said that he can predict a fight on the rider in its present form, as changed by the Senators.

Rep. Emanuel Celler of New York, long an active critic of the silver purchase statutes, stated to the "Chronicle":

"Silver must be stripped of all coddling and must compete with other metals on its own power alone. It is silly to continue to worship silver as a sacred cow.

"As for the silver rider now pending in the Senate, the attaching of a rider to an appropriation bill is an abominable practice, and the House rules ought to be changed to prevent it.

"The Senate rider, as I understand it, increases the price of silver. I am against any increase in silver's price by Government purchases. In fact, I'd like to see all the silver purchase acts thrown out the window and the Treasury's idle sliver sold to industry where it can be put to some use.

"As for the silver Senators' efforts to repeal the silver tax and nationalization powers, so long as the silver purchase acts remain on the books, I oppose such repeal. Removal of restrictions on silver trading would encourage speculation. A few years ago we witnessed the horrible spectacle of Father Coughlin profiting at public expense through his silver speculations in the name of his Shrine of the Little Flower.

"While I oppose the Senate silver rider provisions, I don't expect I can do much about it, the House rules governing this appropriation bill being what they are."

Young, Aal & Golkin To Open May 15

Young, Aal & Golkin will open as of May 15th at 115 Broadway, New York City. The firm will do a general unlisted business. Members of the firm will be Theodore R. Young of J. Arthur Warner & Co.; C. Jerome Aal of Abraham & Co.; Sol Golkin of Wertheim & Co.; and John Keener of Wertheim & Co. who will be cashier for the new firm.

Managing the Debt

(Continued from first page)

debt is handled over the coming years will depend in large measure the answer to our most pressing economic problems.

Inflation of Money Supply

Let me begin by reviewing briefly a few facts. We have just finished a war that cost us well over $300 billion. We could not finance it by cash obviously. Instead we financed it by an expansion of $230 billion in our government debt. A good part of that debt was placed with the banks. As a consequence, bank deposits rose by about $100 billion to about $165 billion. Bank deposits and currency together now amount to nearly $200 billion or about triple what they were before the war. That is inflation—an enormous inflation of the money supply.

Whenever banks increase their holdings of government securities there is an increase in bank deposits. The problem before us at this time is how we can halt a further monetization of the debt. In other words, how can we arrest the further purchase of government debt by the banks, which creates deposits, without precipitating a collapse of government bond prices or a severe rise in the cost of servicing the debt?

Factors Leading to Present Situation

I would like to run over briefly some of the factors that have created the present situation. In order to facilitate war financing the Federal Reserve System threw open its reservoir of credit to the banks. The Federal Reserve banks established a buying and selling rate on Treasury bills of 3/8 of 1%. The commercial banks could take their Treasury bills to the Federal Reserve and sell them at 3/8% discount and at any time they could buy back similar amounts of corresponding maturities at the same price. In other words, the banks were given what was in effect a "put and call" on Treasury bills at this highly advantageous rate. In addition, a preferential discount rate of 1/2 of 1% was established on short-term governments maturing within a year. The effect of these two arrangements was to make short-term governments for the banks the equivalent of interest bearing cash.

Decline in Interest Rates

As a result of these and other measures, a point of view developed on the part of banks over a period of time that government securities were riskless assets. The huge deficit of the war consequently was financed at declining rates of interest, rather than at rising rates, as might have been expected. For example, between March of 1942 and V-J Day the yield on taxable bonds of 7 to 9 years maturity dropped from 1.82% to 1.59%. On 15-year bonds the yield dropped from 2.43% to 2.36%. The price of six long-term bonds went up from 101 1/4 to 101 25/32.

With the increasing development of the notion that government bonds were riskless, regardless of maturity, the banks began to reach out more and more for the longer maturities, which carried a higher rate of interest. In the last 18 months of the war the insured commercial banks of the country showed almost no change at all in their holdings of short-term governments, but their investments in Treasury bonds went up 60%. There developed a so-called triple-play in government securities whereby the banks put their short-term governments into the Federal Reserve and used the funds so obtained to buy long-term governments from non-bank holders. These, in turn, subscribed to issues of government bonds not eligible for purchase by commercial banks. Thus there was a tendency for more and more debt to go into the hands of the banks, resulting in increased deposits, and there was also a rather rapid up-bidding of the price of government bonds.

I have cited the figures on the yield of government bonds between early 1942 and V-J Day. They showed a rather moderate decline. Subsequent to V-J Day that decline was accelerated. For example, the yield on 7 to 9 year taxable bonds, which had been 1.59% on V-J Day, was 1.28% at the end of March. The yield on 15-year bonds in that period went down from 2.36% to 2.08%.

That situation could be excused, I think, while the war was on. It would be very unwise to allow the pattern to continue now that the war is over. To allow it to continue would aggravate the dangers and potentialities of inflation by permitting a further and further monetization of the debt. It would lead, in addition, of course, to a constant further cheapening of money rates with all the problems a falling rate of interest creates for the various thrift and financial institutions.

Cheap Money Really Expensive

I am definitely not opposed to low interest rates, but I am a firm believer in the ancient motto: "Nothing in excess." There comes a point when cheap money ceases to be a bargain and becomes instead something too expensive for our economy to afford. If we are to continue to encourage or condone a very material further cheapening of money rates, we shall have to pay a very high price in aggravation of our postwar inflation and the discouragement and embarrassment of all forms of thrift. It would be a bold man who would undertake to say precisely what is the correct level of interest rates at any particular time, but I do not think there is any sensible man anywhere who will argue that a further material decline in money rates from their present levels is needed or desirable. What is, I think, especially important at this time is to reduce the current uncertainty which exists with respect to the intentions of the Treasury and the other fiscal authorities.

Within recent months we have been hearing of a great many schemes for reducing the yield which banks derive from their holdings of government securities. The mildest of these reports is the suggestion that from now on banks cannot expect to get from the Treasury any securities yielding more than 7/8 of 1%. That alone goes far to explain the recent action of the banks in reaching out to increase their holdings of long-term government bonds. They were trying very naturally to hold up their average return, for if the banks were to get nothing but 7/8 certificates in the future that would create a very severe dent in their earnings. During 1945 for example the statewide average yield here in New York State on government securities held by the banks was 1.28%, the yield for New York City banks being 1.25% and that for the upstate banks 1.47%. But if the yield on their government securities were to be cut to 7/8 of 1% the net current operating earnings of the upstate banks in New York would be reduced from 9.49% last year to 3.78%.

Declining Money Rates and Bank Earnings

So, you see, it would mean a great deal to the banks. Moreover, the commercial banks, as is not often realized, have very large thrift deposits. Their thrift deposits are almost twice as large as the deposits in mutual savings banks. In some of our smaller upstate banks thrift deposits amount to as much as 60% of all deposits. It is hardly necessary to point out how difficult is the problem that is created for savings banks and insurance companies by the declining rate of interest.

From the standpoint of bank supervision this is a situation that causes great concern. One of the big problems of bank supervisors is to see that bank capital somehow or other is increased in a degree commensurate with the great increase in deposits that has taken place. At present the ratio of capital to deposits of all the insured commercial banks of the country is not much better than 6% as against the traditional 10%.

If the Treasury permits a condition to continue which encourages an expansion of bank deposits while adversely affecting bank earnings it will not be possible to build up these capital ratios. Then we may have to see a limitation of bank dividends and an increase in service charges. Such a situation would tend to weaken the banking system.

A number of plans have been proposed for calling a halt to the monetization of the government debt. The most widely discussed of these are proposals which in one form or another would freeze bank holdings of governments at a reduced rate of interest in such a way as to relate these holdings directly to bank deposits. Suggestions along this line have been made by the CED and by Dr. Simeon F. Leland, Chairman of the Federal Reserve Bank of Chicago. But the basic proposal of which all others are mere variants is the so-called certificate reserve plan which was advanced by Lawrence H. Seltzer, professor of economics at Wayne University.

The Seltzer Certificate Reserve Plan

Under this proposal every bank with deposits of more than, say, a million dollars, would be required to maintain certificate reserves equal to stated portions of its deposit liabilities, such as, for example, 65%, in addition to other reserves required to be maintained by Federal or state regulations. These certificate reserves, it is suggested, would bear interest at 1% and would be callable for exchange into like securities bearing a lower or higher rate of interest or for final redemption at any time upon four months' notice. They would be payable upon demand of any bank. The rate of interest would be fixed by Congress and the Federal Reserve would be empowered within limits to vary from time to time the percentage of reserve certificates required.

To my mind there are a number of objections that may be made to this plan. It involves imposing upon the banks a very rigid pattern that would be disturbing to their customer relations. It would reduce the earning power of the banks, thereby jeopardizing their capital position. It would tend to weaken the dual banking system by tying all banks still more strongly under the control of the Federal authorities.

But, beyond that, such a plan entails a very serious defect which would completely defeat the purpose for which it is advanced for the plan would entail a multiple expansion or contraction of deposits. Let me give you an example. Let us suppose that bank deposits were increased $100 as a result of a bank loan or investment. Then $65 worth of these reserve certificates would be required, and that would create $65 of new deposits because the $65 would be paid into the Treasury for the certificates. And we are not to presume, I suppose, that the Treasury is going to sit there indefinitely with money it does not use, paying interest on it. So presumably the money would be spent and that would inevitably create a deposit.

This new deposit, in turn, would require a reserve of 65%, or $42.50, in reserve certificates. That would creat a new deposit of that amount which, in turn, would require a reserve of 65%; and so on the process would continue until in the end the banks had purchased $186 of certificates and deposits would amount to $286.

That is what would happen as the result of a $100 rise in bank deposits resulting from a commercial loan. That is the least that would happen. Conceivably, the multiple effect could be very much greater, because if the banks lacked reserves and the Federal Reserve Bank supplied those reserves through purchases of securities form non-banking holders, this is what would happen: A $100 increase in deposits created by bank loans or investments would require $85 of open-market operations by the Federal Reserve to put the banks in funds with which to build up their necessary certificate and regular reserves. That would result in $85 of new commercial bank deposits which would, in turn, require another 85% of open-market operations to supply the necessary reserves, and so on, taking 85% of 85% of 85% until the relationship between reserves and deposits would be restored only when deposits amounted to $667. This particular plan to cure inflation, as you can see, would have exactly the opposite effect. Of course it would have the corresponding multiple effect in reverse if bank deposits were reduced through repayment of a loan or sale of an investment. So I think that that plan must be pronounced unsuitable for the purposes for which it has been brought forward.

Here is one of those interesting cases where ingenuity outruns common sense. It is to my mind illustrative of a fatal defect that runs through so much of current thinking and discussion about the difficult financial and economic problems that face us. It is what I like to call "gadget thinking". It rests upon the delusion that our problems can be solved if only some bright fellow will invent some ingenious and brilliant device. It rests upon the delusion that there can be applied to the field of the social sciences the same sort of scientific ingenuity which has developed radar, the Norden bomb sight and the automatic pilot in the field of aviation. But that is sheer delusion. In economics and in sociology we are dealing with an invention far more complex than the airplane. We are dealing with God's unique invention—man; and man, for better or for worse, is not susceptible to the guidance of automatic pilots. If he were, he would never have been able to invent radar. But if our fiscal authorities would give up the search for some brilliant stroke of genius that could painlessly solve the problems that confront them, I think they might find that less spectacular but more effective solutions are close at hand.

"A Slick Patented Gadget Idea"

This problem of the monetization of the debt with its intimate bearing upon the problem of inflation and of future economic stability in our own country and the world is a dangerous and delicate problem. But the greatest danger is that we should fall for some slick patented gadget idea instead of tackling it in a simple, common sense manner.

The war is over. We are attempting to achieve reconversion to a sound, peacetime economy. Accordingly, the fiscal policies which were appropriate to war should now be changed to those that are appropriate to the requirements of peace.

A Peacetime Fiscal Program

First, of course, the Federal budget should be balanced. It will not be possible to control the inflationary effects of the national debt if that debt is permitted continually to increase. The present proposal before Congress to place a limit of $275 billion on the debt was a highly desirable move in that direction, although under this proposal the actual limit is not $275 but $285 billion.

Next, the Federal Reserve System should be released from its subservience to the Treasury in order that it may take plain but moderate steps to regain control of credit. I am delighted that already one small step in that direction has been taken in the form of the elimination within the past ten days of the preferential discount rate on governments maturing in one year. That step should be promptly followed by eliminating the 3/8% "put and call" on Treasury bills. These two arrangements were purely wartime measures. They have no place in the peacetime economy or in the proper operations of a central bank. In this connection the Federal Reserve banks might well allow some gradual run-off in their government securities portfolio, thereby exercising a mildly tightening effect on credit.

An Omen Toward Soundness

These measures are not drastic and they are not novel at all; yet they could have a very considerable effect. They would be a signal, so to speak, that the free ride is over. It must be borne in mind that the situation we face at this moment is to a considerable extent psychological. The banks have finally, many of them with much reluctance, come around to the point of view that governments are riskless and that this is a one-way market. I doubt whether the recent period of weakness in the government bond market has done much to alter this point of view.

It would only be necessary to get the notion bruited abroad that long-term governments can no longer be purchased with complete assurance of a continued rise in price, in order to have a very large part of the present problem disappear overnight. But it is equally important to avoid an abrupt reversal of the present viewpoint. It is for this reason that I suggest the appropriate measures should be mild in character and of a familiar type rather than novel and extreme.

Curtail Deposit Expansion

The next major step, I think, should be to arrest a further expansion of bank deposits. The great expansion of bank deposit money that has taken place constitutes the basic inflationary factor in our economy. Accordingly, the sensible thing is to avoid further increases, especially until such time as production has had an opportunity to catch up with the swollen means of payment.

At this point I should like to emphasize I am not advocating any drastic deflation of privately held bank deposits. I do think, however, that there are some reasonable measures that could be prudently adopted. For example, the Treasury now holds about $20 billion in deposits in commercial banks. This money should not be allowed to get into the hands of individuals, as would be the case if it were spent.

At the present time these balances are government deposits. They are inactive, but if the Treasury spends them either for general purposes or to redeem government securities that are in the hands of the public, the deposits would pass over into the hands of the public and add to the money supply and to the inflationary potential. Instead, I think, what the government should do is to extinguish these deposits by using them to retire government securities held by the banks. This is a most important point. If these deposits, now held by the government were to be transferred into private deposits they would add to the existing volume of privately held commercial bank deposits by nearly 25%.

In this direction also something has been accomplished. The Treasury, in accordance with the plans announced earlier in the year has recently retired $7 billion of government securities. But the process can and should be carried much further. The existing large volume of Treasury deposits in commercial banks should be extinguished and not permitted to become a part of the inflated money supply at the disposition of the public. If this is done, of course, it will be necessary for the Treasury to raise some additional funds to meet its current needs. Every effort should be made to raise these funds outside of the commercial banks.

2½% Top Issue Suggested

I would suggest that there be provided a long-term tap issue carrying, say 2½%—perhaps even a trifle more—and that this issue should be sold to savings banks, insurance companies and other non-commercial bank investors. In addition, commercial banks should be permitted to subscribe to these bonds in an amount directly proportionate to the expansion of their thrift deposits. In this way, institutions which are repositories of savings would have assurance of obtaining a reasonable amount of high-coupon governments and would have no excuse for bidding up outstanding issues. In short, the tendency would be to put a ceiling on government bond prices.

Banks Should Stand Pat On Governments

As a further essential measure the banking institutions of the country should be asked to cooperate voluntarily in a program to arrest monetization of the debt. In effect, the banks should be asked to stand pat on their present holdings of medium and long-term governments. I know that many people will regard such a suggestion as utopian and even naive. But the British and Canadian Governments have found it possible to rely heavily on voluntary action. I am not prepared to believe, without proof, that our bankers are any less patriotic and intelligent than their British and Canadian counterparts.

We have in New York, for example, 270 State-chartered commercial banks with resources of about $24 billion, and 131 savings banks with assets of over $9 billion. I am talking only about the State-chartered banks, but they represent nearly 20% of the banking resources of the country. I have some knowledge of the men who run these institutions. I know that they can be counted upon, if properly approached, to cooperate with any sound program that makes sense and is clearly explained. Anyone who doubts that they would cooperate on that basis greatly under-estimates the patriotism and good sense of our bankers. At all events, it seems to me it would be far better to see what we can do in the way of voluntary action than to waste any more time blue-printing Rube Goldberg schemes for putting the banking system into a straight-jacket.

Some Interest Rise Justified

Finally, I think it should be made clear that none of these measures constitutes an abandonment of an easy money policy. The measures I have suggested might possibly result in some increase in the interest cost of the debt. I can see no reason to fly into a panic about that. It should be made clear that the Treasury and the Federal Reserve System are not abandoning an easy money policy; that they are merely administering some mild correctives to existing excesses. It should be strongly emphasized that any sharp fall in the price of governments would result in official support.

Under the circumstances, I believe that the increase in the cost of carrying the debt would be very small. But suppose the average cost of the debt rose ¼%. That would mean an increase of between $600 million and $700 million in the cost of debt service. This would surely not be an excessive sum to pay to curb inflation. We are paying far larger sums than that for subsidies to conceal the effects of inflation. The Administration has been asking Congress for nearly that sum to conceal inflation in housing costs.

Summary and Conclusions

To summarize, I would urge the following steps:

1. Balance the budget;

2. Eliminate the special war-time rates for Federal Reserve credit and permit the Federal Reserve System to reassert its control of the money market;

3. Utilize the existing $20 billion of Treasury deposits to retire government securities held by commercial banks;

4. Put on tap periodically a long-term Treasury bond for subscription by institutions which are pools of bona fide savings as well as by individuals;

5. Enlist the cooperation of the banks in a program to stop the further monetization of the debt;

6. And above all end the existing corrosive uncertainty about the government's debt policy. Make it plain that we are not going to abandon an easy money policy but make it equally clear that we do not propose to carry that policy to totally absurd destructive lengths.

These suggestions, I confess, have none of the appeal of novelty. I do submit that they are reasonable and understandable; that they are practical; that they involve a minimum of risk. I would not try to undertake them all overnight. I would advance one step at a time, testing the firmness of the ground under each step before I took the next one. With such a course, I am convinced we can safely manage our unprecedented national debt and minimize the existing postwar inflation.

Dealer-Broker Investment Recommendations and Literature

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

(Continued from page 2511)

—Buckley Brothers, 1529 Walnut Street, Philadelphia 2, Pa.

Also available are memoranda on **Gruen Watch** and **Wellman Engineering**.

Butterick Company, Inc.—Detailed circular—Blair F. Claybaugh & Co., 72 Wall Street, New York 5, N. Y.

Canada Southern Railway — Memorandum in the current issue of **"Railroad and Other Quotations"**—B. W. Pizzini & Co., 25 Broad Street, New York 4, N. Y.

Cannon Mills—Study of interesting situation in one of the better textile equities — Eisele & King, Libaire, Stout & Co., 50 Broadway, New York 4, N. Y.

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

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

Also detailed circulars on **Upson Co.; Tennessee Products; Wellman Engineering Co.; Shatterproof Glass; Doyle Manufacturing; Textiles, Inc.**

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

Commodore Hotel, Inc. — Descriptive circular—Seligman, Lubetkin & Co., 41 Broad Street, New York 4, N. Y.

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

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

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; Aspinook Corp.**

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

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

Also available are special reports on **Automatic Signal** and **Northern Engineering Works.**

Federal Water & Gas Corp. — Memorandum—J. G. White & Co., Inc., 37 Wall Street, New York 5, N. Y.

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.

Kansas City Southern — Memo —Vilas & Hickey, 49 Wall Street, New York 5, 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.

Midland Utilities Company and **Midland Realization Company** — Analyses—Ira Haupt & Co., 111 Broadway, New York 6, N. Y.

Midland Utilities Company and **Midland Realization Company**—Current memorandum and balance sheet—Doyle, O'Connor & Co., 135 South La Salle Street, Chicago 3, Ill.

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

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 Amsterdam Casualty Company—Study of interesting situation—Geyer & Co., Inc., 67 Wall Street, New York 5, N. Y.

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

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

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

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.

Sheller Manufacturing Corp. — Recent report—**Mercier, McDowell & Dolphyn**, Buhl Building, Detroit 26, Mich.

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.

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.

Standard Stoker Co., Inc. — Study of situation and outlook —G. A. Saxton & Co., Inc., 70 Pine Street, New York 5, N. Y.

Steel Products Engineering Co. —Survey on manufacturers of "Combustioneer," an automatic stoker—J. Roy Prosser & Co., 52 William Street, New York 5, N. Y.

Sterling Motor Truck Company — Circular — Adams & Co., 231 South La Salle Street, Chicago 4, Ill.

Thermatomic Carbon Co. —Circular—Hoit, Rose & Troster, 74 Trinity Place, New York 6, N. Y.

Arleigh P. Hess Is Forming Own Company

PHILADELPHIA, PA.—Arleigh P. Hess & Co. is being formed with offices at 1606 Walnut Street, by Arleigh P. Hess and Arleigh P. Hess, Jr. Mr. Hess was formerly in the U. S. Army Air Forces and prior thereto was a partner in Boenning & Co.

Blyth & Co. Adds Six to Staff in Los Angeles

LOS ANGELES, CALIF.—Blyth & Co., Inc., 215 West Sixth Street, have added to their staff Jack C. Bomke, Richard D. Carpenter, Loy F. Peterson, Luther D. Prater, Rufus G. Rodgers, and Eugene A. Shurtleff.

Greene President of Collateral Discount

George M. Greene, one of the organizers of the Collateral Discount Corporation, 420 Lexington Avenue, New York City, a Director, and Vice-President, has been elected President according to an announcement by Mr. Arthur J. Morris, Chairman of the Board.

George M. Greene

Mr. Greene is a native New Yorker and has spent his entire business career in the banking and financing business, specializing in short and long-term corporate financing as well as loans to individuals secured by marketable securities, life insurance policies, etc.

Mr. Joseph C. Rovensky, formerly Vice President of the Chase National Bank, and Mr. Howard C. Thurman are newly elected members of the Board of Directors, which includes Arthur J. Morris, J. A. Bancroft, J. P. Christianson, G. M. Greene, Thorburn Reid, Jr. and C. L. Williams.

Sartorius Named to Hospital Regents

Irving A. Sartorius, a member of the Stock Exchange firm of Sartorius and Company, has been elected to the Board of Regents of the Long Island College Hospital, it was announced by Colonel Tracy S. Voohees, president of the Board of Regents.

A veteran of both World Wars, Mr. Sartorius recently was discharged from the United States Coast Guard in which he served for three years as a Lieutenant Commander in both the Atlantic and Pacific theaters of operation. During World War I, he was commissioned a Second Lieutenant in the Army Field Artillery at Camp Zachary Taylor and also served at the Artillery School of Fire at Fort Sill, Oklahoma.

Mr. Sartorius, who held a seat in the New York Stock Exchange from 1916 to 1930, was a senior partner in the brokerage firm of Sartorius and Smith prior to becoming associated with his present company. He received his B. S. degree from the Sheffield Scientific School at Yale University in 1914.

Mr. Sartorius, who resides at the Hotel Langdon, 2 East 56th Street, Manhattan, has been active for many years in philanthropic projects as a member of the Westchester County Coordinating Committee, which supervised the county work with war refugees, and as a member of the Board of Directors of the Recreation Rooms and Settlement of New York City.

Serving as members of the Board of Regents of the Long Island College Hospital are: George C. Johnson, A. Edward Sherr, Jr., Richmond L. Brown, George Whitlock, Henry C. Turner, Lawrence C. Hull, Jr., Mrs. Mary Childs Draper, Mrs. Genevieve B. Earle, Charles V. Graham, John S. Keegan, Mrs. Donald M. Oenslager, Dr. J. Sturdivant Read, Mrs. Fedor L. Senger, Mrs. Theodore C. Streibert, Dr. John F. Thompson, James C. Chilcott, Charles W. Franklin, Peter V. D. Voorhees, Cyril J. Redmond, and Louis W. Munro.

Anglo-American Loan Terms Crippling to Britain

(Continued from page 2507)

moment neither we, nor anyone else in the world, are yet in a position to export on a really substantial scale. America will have to lend, through public or private channels, if she wants to export, whether she lends to the public or through private channels. She will lend, if she is wise, to those who are, by their resources and their character, most likely to repay, and will avoid imposing conditions which will make repayment difficult or impossible.

I have no doubt whatever myself that we can repay the loan now proposed, and in far less than 50 years, if we remain free agents. That is to say, if we are free to control our external trade so as to suit the needs of employment and production in this country; if we are free to maintain and develop the fruitful expansionist policy of Imperial Preference and of the sterling system within our own family of nations; if we are free to make mutually profitable trade arrangements with foreign countries, and not least with the United States. If, on the other hand, we are to be bound hand and foot by what I regard as out-of-date theoretical schemes under which we are to sacrifice the control over our own home market, eliminate preference, abolish the sterling system and abandon all hope of something better in foreign trade agreements than the obsolete and restrictive Most Favored Nation Clause, then, I say, with all the earnestness that I can command, that we shall not be able to pay our way at all and shall most certainly not be able to repay the loan.

The View Ahead

Let me remind you of the position which this country will have to face in the years ahead of us. We have lost more than half of our income from overseas investments. Much of our income from shipping, insurance and finance has gone. It is estimated that, if we are to keep our heads above water at all, we must in future increase the volume—not merely the value—of our exports by some 75% over the immediate prewar years. As our exports of foodstuffs and raw materials are a small and I fear stationary element in the whole, it means that we shall have at least to double our export of manufactures. Where and how are we to do this? The European market is not exactly promising or likely to be what it was for many long years to come. Elsewhere there are many once profitable markets where we shall find ourselves increasingly replaced by local production. We have, I am sorry to say, long ceased to be the world's cheapest producers over the field of industry taken as a whole. Our relatively small-scale industries cannot compete easily with the surplus of America's immense volume of production. On the other hand, our standard of living and our overhead of taxation are far higher than those of many other countries whose equipment and manual skill are no whit inferior to ours. It is perfectly true that the quality of British workmanship will always secure us a considerable market. But under sheer cut-throat open competition we cannot achieve that gross total volume of exports which we must have in order to secure those raw materials and foodstuffs essential to our life. Exports for us are not merely a convenience, a useful flywheel in our productive economy; they are the only way by which we can earn our daily bread.

A Free Hand

In these circumstances, we must have a free hand. Our first duty will be to exercise a strict economy over the expenditure of the line of credits now proposed, if that is granted, whatever credits we may earn in future by our exports. We cannot afford to admit any but essential imports. We must take whatever measures may be necessary to maintain our agricultural production at the highest level, regardless of mere price competition from outside. We must select carefully the manufactured goods that we can afford to let our people purchase. What is more, we must be free to exercise a measure of selection as to the source of our imports. In making trade agreements we have one outstanding bargaining asset, an asset on whose importance Mr. Hawkins, and more recently, Mr. Clayton, have rightly laid stress, namely, the fact that we are, and always will be, an immensely important consumers' market. I can see no reason why favored access to that market should be given to those who are not prepared to give us equivalent help in return. I am well aware that this is what the present American Administration calls discrimination, and is contrary to the interpretation of the Most Favored Nation Clause which the United States has adopted in recent years. All I can say is that the old American interpretation was much better calculated to promote trade expansion. The present rigid interpretation is a direct obstacle to the lowering of tariffs by mutual agreement. It means that concessions which might be given to the other party in a deal are not given at all because the whole world has to be let in on the same terms, while the other party's concessions are hardly worth securing if they have to be shared with every competitor. In those circumstances the most paying thing for a country is to sit back and hope that someone else will make the concessions for you, or else to dodge the spirit of the clause by ingenious over-detailed classification.

Economic Preferences

Happily, we made it clear to the world nearly 50 years ago, and have done so in every trade agreement since, that the Most Favored Nation Clause does not apply to trade within the British family of nations. During that half-century the preferential reduction of duties freely given by Dominion Governments on British imports have been a most important standby in our whole economic life. They became even more important when, for the first time, this country reciprocated fully under the Ottawa Agreements. Under those agreements our trade expanded remarkably in every direction. Over the five years, 1932-37, our exports to British countries rose by 52%, and our imports from British countries rose by 64%. This was not at the expense of our trade with the outside world, with which our exports, over the same period, rose by 35% and our imports by 37%. To suggest that the greater relative increase of our inter-Empire trade was at the expense of our trade with other countries implies a stationary conception of trade which has no justification whatever. Our foreign trade expanded because our producing and consuming power was increased by our inter-Empire trade. Indeed, if it had not been for the mutually expansionist effect of the Ottawa Agreements, each country in the British Commonwealth would have been driven, as the European countries were, to much higher tariffs and to restrictive quota, barter and exchange devices in order to meet the acute world situation. The total trade of the Empire with foreign countries would have been less and not more, but for the Ottawa Agreements.

Even before the war the British Empire, thanks very largely to preference, took more than half our total manufactured exports. We cannot possibly give up this market and its opportunities for further expansion and still pay our way in the world under conditions of promiscuous cut-throat competition. Given our freedom to pursue the policy of balanced, cooperative expansion which I have outlined, we can also conduct a steadily increasing trade with the United States as well as with other countries and, as I have said already, should find no difficulty in repaying the loan.

Political Preferences

I have dealt with this question of preference purely on the economic side. But it is also essentially a political question. To deny the right of the British countries to give each other whatever preference they choose is to deny the right to the British Commonwealth to exist as an entity. We are just as much entitled to reduce our tariffs to each other, or to have free trade with each other if we choose, as the various States of the American Union are to have free trade with each other or, if it suited them, to set up inter-State tariffs. We are as entitled, and as bound morally, to give each other help and support in trade as we are in defense. The preferences we give here are of great importance to many industries in the Dominions and mean life or death to many colonies for whom we stand in the position of trustees. These are responsibilities and duties which cannot be bargained away for lower tariffs in the United States or anywhere else. In any case, they are our own concern and no one else's. Forgive my speaking very plainly, but I am only voicing the resentment which millions of my fellow countrymen here, and in other parts of the British Commonwealth, are feeling at the pressure which has been put on us, in our immediate difficulties, to induce us to acquiesce in the abandonment of our right to help each other within the British family.

Sterling

What I have said about the economic aspect of preference equally holds good about sterling. Unlike gold, the quantity of which is fixed at any given moment, sterling is an elastic currency which expands to meet the needs of trade and production—a much better currency than gold. It was a vital factor in our recovery after 1931. It played no small part in seeing us through the war. If sterling is left to adjust itself over the next few years it can be an immensely important factor in stimulating productive energies over the whole sterling area, and so increasing the trade of that area with the outside world. Instead of that, the American Treasury seem determined to wreck sterling. They have made it part of the Loan Agreement that within a year of the effective date all sterling arising from current transactions within the sterling area are to be released—in other words, freely exchanged for gold and dollars. What does that mean? It means that we shall be bound to pay gold or dollars for whatever we buy in the sterling area, and shall, therefore, have so much less available for our purchases in the United States. America will not get one cent more in the way of exports, but our power of recovery and of repaying the loan will be seriously weakened. Again, if vast quantities of sterling are in this way thrown on the world market, sterling will depreciate. An inevitable invisible tariff will thus be set up in all sterling countries against American exports, and Bretton Woods will be in difficulties from the start. If the American Administration had deliberately wished to make repayment of the loan difficult—and in my opinion impossible—they could not have done better than tie to it all the strings they have done.

I know that there are those, not only on the other side of the Atlantic, who will say that my fears are unwarranted. They suggest that under the policy which the United States are pressing upon us there will be such an expansion of world trade that there will be room not only for that trebling of American exports which President Roosevelt spoke of, but also for that doubling of our manufactured exports which are essential to our existence. I believe those who hold that view to be grievously mistaken both as regards the advantages America or the world might gain from that policy, and as regards the likelihood of the world, as a whole, seriously adopting it.

Internationalist Economy

That policy is associated in America with what is known as the New Deal. It was a New Deal once. It was the British New Deal of the year 1846, when the world economic situation and social and economic conditions were much more favorable to its successful working than they are today. We thought then that we were giving a lead which all other nations would follow. They knew better. The United States were among the first to reject a purely competitive price policy and to concentrate on the development of their immense latent human and material resources in order to protect that development from competition by the lower-paid labor of the outside world. Look at the amazing result! Germany grew to industrial greatness by a similar policy of deliberately fostering production. More and more other nations followed their lead, whether for the sake of expanding production or of maintaining the standard of living of their working class or the stability of employment.

All the same, after the First World War the attempt was made under American and British influence to restore the internationalist economy, at any rate so far as the gold standard and the Most Favored Nation Clause were concerned. Things went reasonably well for a time, but only because the excess of American exports was counterbalanced by lavish American investment and by vast sums spent by Americans abroad. When the domestic boom in the States was succeeded by slump, Americans stopped investing abroad and stopped travelling. The world's gold was sucked into America, credit was everywhere restricted, prices fell and the great world depression set in. The story is told with admirable clarity in the Report published in 1943 by the United States Department of Commerce under the title "The United States in the World Economy." If only time allowed I should like to quote freely from that Report, but I may mention that it was reprinted by the British Stationery Office and can be secured here at the price of 2s.

Now two things stand out clearly from that Report. One is that it was the linking up of the rest of the world with the immense dynamic momentum and the violent internal fluctuations of the American economy that brought about the world depression. The other is that the various measures taken by the nations to protect themselves did effect their purpose and brought about world recovery, and the recovery of the countries of the sterling bloc are referred to in the Report as being outstanding. The recovery of the United States was slow. Yet somehow or other, the powers that be in the United States have got the story upside down. They have persuaded themselves that the world depression was caused by the measures which the world took to cure it, and that all the world needs today is a stronger dose of the poison that nearly killed it fifteen years ago.

The Dollar Problem

I have already expressed my conviction that if we and the world followed the policy which the present American Administration is trying to force upon us, we, at any rate, could not pay our way or repay the loan. But I would add that if the world were foolish enough once again to repeat the experiment of re-establishing the internationalist economy of twenty years ago, the result would be disastrous for the world and, not least, disastrous for the United States, which were the worst sufferers from the aftereffects of the world depression. The only way, indeed, as the Report points out, in which such an economy could work is if the United States internal economy remained entirely free from serious fluctuations and if the United States were prepared to supply quite steadily all the dollars required to make it work. Who is going to guarantee that? No administration in the United States; still less a British Government here.

Moreover, that policy can only be made to work in the long run by America importing more from the outside world than she exports. Lending can only postpone that necessity for a time, for interest and repayment have eventually to be made in goods. That means that America, if she really means business with her policy, must not merely lower her tariffs as a gesture to others, but lower them so effectively, regardless of the effect on the balance of American internal production or the level of American wages, as to make sure that her imports will steadily outstrip her exports and ensure the interest and repayment of the loan. That is what we did, and we did it to the destruction of our agriculture and the gradual weakening of our industries until, at last, after 1931 we realized that only a change of policy could avert complete and final disaster. I wonder if the American public realize what their official policy would involve if it were ever carried out?

Alternative Policy

You may ask me, if I criticize the policy which the United States Administration has put forward and to which our Government here has pledged its support, what alternative policy have I to put in its place? The policy I would commend is, first, to leave it to every nation to secure the maximum of balanced and stable expansion within its own boundaries by whatever measures are best suited to its social and political structure, including the control of its own monetary policy. Secondly, to leave every nation free to make mutually advantageous arrangements for the expansion of trade and production with other individual nations and more particularly within groups of nations whose resources supplement each other and which, for one reason or another, wish to work in permanent association with each other.

To put it more particularly, I would ask America to approve and support, instead of denouncing, British Empire and sterling policy and to look to securing a growing share in the expansion of trade and production which will follow. She can do so all the more effectively if she will revert to her former and, at the moment, more sensible interpretation of the Most Favored Nation Clause and make specific and, in effect, preferential trade arrangements with the various members of the British Comonwealth for the expansion of their mutual trade. She can also find a fruitful outlet for her capital by direct investment inside the British Empire, as she has already done in the motor industry in Canada and in many industries in this country. You, Mr. Chairman, have referred to the Goodyear Tire Company, with which I have the honor to be associated. That same Report, to which I have already referred, shows how much better this type of investment is than direct dollar loans. It creates, so the Report points out, an international business community making for co-operation. Being mostly investments in equities, it means that America is directly interested in the prosperity of the countries concerned; she becomes a member, not merely a creditor; and, unlike loans, direct investment automatically does not call for payment at times of serious depression. Your own Chamber, I may remind you, issued in May last an admirable little pamphlet on "American Participation in British Industry," giving good advice as to the lines that American finance and industry might follow in this country.

European Trade Bloc

What I urge America to favor in regard to the British Commonwealth I would equally urge her to follow with regard to Europe. Let her waive the Most Favored Nation Clause and encourage the European nations to form a preferential union among themselves. That is by far the best hope for European recovery. The other policy is bound to lead, sooner or later, to depression, repudiation and, eventually, by reaction, as it did before, to extreme autarchy and totalitarianism.

I shall be told that I am advocating a policy of economic blocs, and that economic blocs mean economic conflict and eventually war. If you will forgive me, that is pure moonshine. If economic blocs, as such, are a danger to the peace of the world, what about by far the most formidable economic bloc in the world, which is composed of the forty-eight States of the American Union? If economic blocs are a danger to world peace, should not the first step towards assured world peace be to disband the United States as an economic unit? But I would go further. There is a real danger to the peace of the world today, and that is if two predominant economic blocs, one of them practicing a totalitarian economy and the other preaching and pressing for the restoration of the nineteenth century unregulated competitive price economy, compete for mastery over an unorganized world of small economic units, forcing them, in practice, to join one side or the other. The true interest of world peace, in the economic as in the political field, lies precisely in the formation of nation groups or families which can deal on a footing of equality with either the United States or Russia, and which need not follow exactly the economic policies of either but can co-operate in friendly independence with both.

American Trade Proposals

That, I believe, is the natural line of evolution to match modern world conditions. The United States Administration is, in my opinion, pursuing a policy which is reactionary and will lead them nowhere. Our own Government here have, I know, very reluctantly promised to support the policy which is disliked equally by their Socialistic followers and by their individual Conservative opponents. They will, I strongly suspect, feel much more doubtful even than they are today about being able to see their way to eliminating Empire Preference after they have discussed the matter next month with the other partners in the British Commonwealth. I no less strongly suspect that when it comes to an International Conference, the American proposals will be welcomed with so many qualifications and reservations that nothing will be left of them except a few pious platitudes. Well, in that case, very little harm will have been done. The commercial proposals will fade out and we shall all go ahead with such economic policies as suit our several needs. Trade between Britain and the United States will flourish; it will, of course, flourish because it is in the interests of both. We shall repay; we can do it in our stride, whatever America finds it good business to lend us, whether through Congress or through private finance. If, on the other hand, America does not want to advance the necessary dollars, we shall have to manage somehow without the American goods which we badly need, and American export interests will have to manage without doing the good business to which they are very properly looking forward. That will be just too had for both.

Nat. Sav. & Loan League To Meet in Chicago

The future of private enterprise in the continued financing of America's homes, discussions of the merits of traditional home building methods and prefabricated homes, and a program of speeches by prominent speakers headed by J. Howard McGrath, Solicitor General of the United States, will feature the three-day program of the third annual convention of the National Savings & Loan League (at the Edgewater Beach Hotel) in Chicago May 16, 17 and 18, it was announced on April 27 at League headquarters in Washington. The National League is a country-wide trade organization for the savings and loan business.

Solicitor General McGrath will be the sole speaker on the opening day, May 16. On May 17 the three speakers will be L. C. Hart, of New York City, President of the Producers' Council, Col. Harold Lee, Governor of the Federal Home Loan Bank System in Washington, D. C., and Foster Gunnison, President of the prefabricated homes company of Gunnison Homes, Inc., New Albany, Ind. Joseph E. Merrion of Chicago, immediate past President and now a member of the executive committee of the National Association of Home Builders, will address the convention May 18.

Two panel discussions May 17 will attract prominent figures as well, viz.: Ben H. Wooten, Vice-President of the Republic National Bank of Dallas, Tex., and Chairman of the Federal Home Loan Bank of Little Rock; General Manager William H. Husband of the Federal Savings & Loan Insurance Corp. in Washington; President A. R. Gardner of the Federal Home Loan Bank of Chicago; Dr. H. E. Hoagland, Professor of Business Finance at Ohio State University in Columbus, Ohio; Herman O. Walther, Vice-President of the Bell Savings & Loan Association of Chicago, Ill., and Carl H. Ellingson, President of the First Federal Savings & Loan Association of Washington. A panel on GI loan procedure which will include discussion of the outlook for veterans' homes will also be held May 17 and the moderator will be Attorney Gerard M. Ungaro of Chicago, General Counsel of the League. There will be a general members' forum on savings and loan subjects. George M. Eason of Los Angeles, President of the League, will preside. The annual election of officers of the League is now under way by secret mail ballot and results will be announced at the opening business session May 16.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

Market dragdown being attributed to coal strike and poor earnings. Whatever basic cause, market indicated reaction at least two weeks ago.

Everything the market seems to do from here on is colored by the coal strike. The situation has existed for the past week, and will probably continue so for the duration of the strike, and perhaps long after it. It takes no brilliant deductions to know that even were the strike over by the time this reaches you the damage done by it will take long weeks and perhaps months to mend. Everybody knows it. But because everybody knows it, it no longer is a market factor.

* * *

The only market factors that mean anything are those within the market. So long as subsequent minor reactions go lower than previous ones, so long is the market in a down swing. If not a down swing, then a pointing to a down road. Frankly I doubt if the removal of the major handicap to advance today, the ending of the coal strike, would mean anything to the market for more than a few hours. The removal of pent up fears would have a temporary psychological effect. But once the first burst of enthusiasm was over, the market would go back to its dull draggy action.

* * *

Two weeks ago and last week I wrote that the tape pointed to one of two things, a reaction of some importance or a period of protracted dullness which might take the place of the anticipated selloff. Since that was written you have seen both, or rather a combination of both. The reaction hasn't been one to bring about much scurrying for safety. And neither has the dullness excited much comment. It seems that both have merely served as a kind of opiate and lulled holders into a feeling of security.

* * *

Market security is a strange thing. Holding a cash position in a certain stock seems to remove all feeling of danger for the holder. If the stock in question is doing nothing, or just going down fractionally, this feeling tends to become a kind of smugness. It is only when there are other demands on the buyer, demands which may require conversion of stocks into cash, that he becomes worried. When such a condition arrives it is next to impossible for the holder to treat the matter coldly and dispassionately. So if he has two stocks, one at a loss and the other at a profit, the chances are—in fact it isn't even a chance; it's a virtual certainty—that he'll sell the one with a profit.

* * *

The professional trader who isn't married to any stock, will do the opposite. In fact he may sell both until he has reappraised the market and made his next decision. He may even decide to stay out of the market until he sees certain evidences that profits are again to be made. He doesn't feel it necessary to be doing something all the time, or even have a position all the time.

* * *

Obviously I can't make professional traders out of every tyro. But I try to point out that the rules and practices which have made money for others in the past, rules which have nothing to do with emotionalism, are the ones to follow. They may not always prove successful. In fact they are not intended as a yardstick to success at all. They show you how to take losses. And only by taking losses can you hope to make profits.

* * *

As of last week you took about 10 points profit and were left with positions in American Car and Foundry at 60, stop 65; Bethlehem Steel at 99, stop 102; Electric Auto-Lite at 71, stop 72; Superheater at 30, stop 31; U. S. Rubber at 65½, stop 74. At this writing practically all of these look like they'll violate the stops before many days pass. If they do your action should be automatic; sell. If they stay above them, hold.

* * *

Should any action come along before the next column is written that calls for reentry I will advise you accordingly. Meanwhile hold on to your cash for future opportunities.

* * *

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.]

Fla. Security Dealers Association Convention

The Florida Security Dealers Association announces that it will hold a convention of members May 30 and 31 at the Macfadden-Deauville Hotel, Miami Beach, Fla.

The program has not yet been finally set, but there will be two, and probably three, well-chosen speakers at the business sessions. It is planned to have speakers of reputation in the fields of municipal bonds, investment trust shares and corporate securities, and the program planned will be well worthwhile for every member of the Association. In addition to the outside speakers, there will be several important matters which the Board of Governors feels should be discussed.

In addition to business sessions, a cocktail party and dinner will be held on May 30, a luncheon and afternoon entertainment for the ladies on May 31, and a banquet at night. Business sessions will be held Friday morning and at a stag luncheon on Friday.

Rates at the Macfadden-Deauville at $3.50 per person, which includes the use of the beach and pool and all the facilities of the hotel.

Reservations should be made with A. R. Morrison, du Pont Building, Miami, Fla.

Richard Robinson With Van Alslyne, Noel & Co.

Van Alstyne, Noel & Co., 52 Wall Street, New York City, members New York Stock Exchange, announces that Richard H. Robinson has become associated with them in their buying department. In the past he was with Adams & Peck.

Frame & Beattie Is Formed in Seattle

SEATTLE, WASH—Howard A. Frame and Dwight E. Beattie are forming Frame & Beattie to conduct a securities business from offices at 1102 Eighth Avenue. Both were formerly connected with John R. Lewis, Inc. for a number of years.

Proposals for Postwar Stable Economy

(Continued from page 2509)

rate has been removed and a slight tightening in short-term rates has already taken place. Furthermore, speculative activity in the security markets has at least to some extent been eliminated. Moreover, it may be expected that the Senate will modify the amendments to the price control law as passed by the House and that price controls will become more realistic and more workable.

While these measures are steps in the right direction they are not sufficient if the nation is to avoid the consequences of a sharp increase in prices. Other measures will have to be taken and very soon if the economy is to be maintained on an even keel and the huge purchasing power accumulated in the hands of the people is to have a long beneficial effect on business activity in the country. Among possible measures are the following.

(1) A further reduction in the expenditures of the Government.

(2) The rapid disposal of all surplus material owned by the Government that can enter the consumer stream. Such a move would reduce the deficit of the Government and place much needed commodities in the hands of the people.

(3) It is advisable that drives to sell Government securities to ultimate investors be intensified. Such a measure would reduce purchasing power in the hands of the people and enable the Government to reduce further the volume of Government obligations held by the commercial banks.

(4) It is necessary that the Treasury carry out sound refunding operations which would reduce the volume of deposits and place Government obligations in the hands of ultimate investors.

(5) The Government must recognize the fact that in most cases an increase in wages is followed by increased costs of production and higher prices and that it is impossible to maintain stable prices while at the same time permitting constant increases in wages. It is, therefore, imperative that the Government hold the new wage and price line established a few weeks ago.

Above all it is absolutely essential to take measures which would increase the output of commodities throughout the country as well as productivity of labor.

The measures suggested above do not impose any particular burden on the people of the United States. While it is true that a removal of all price controls at present would be followed by a sharp increase in production it would also be followed by a sharp increase in prices as well as in wages. Since the income of many people has not kept pace with the constantly rising cost of living their real income has decreased. Under such conditions sooner or later the supply of commodities will outrun the demand and a severe setback can be expected. While prices will decrease it will not be possible to reduce wages and hence the foundation may be laid for serious and prolonged unemployment. Price controls have their drawbacks, yet it is better to maintain and improve them than to risk the danger of an inflationary explosion.

Basically the economy of the country is very sound. The demand for commodities is great. The supply of purchasing power in the hands of people is large. If the proper measures are taken in the immediate future to prevent an inflationary spiral the outlook for business for a number of years is excellent.

Security Council Desperately Seeking Compromise

(Continued from page 2502)

Mr. Hasluck reminded the seemingly tired Council members that repeated absence by one of the Big Five would undermine the whole structure of the United Nations; both because of the resulting interference with voting procedure and because of the dereliction in representing the interests of the 46 non-permanent member nations.

And the fact that Soviet troops have been in Iran since March 2 in direct violation of the Tehran Treaty, which was a basic part of the complaint before the Council, is now apparently too embarrassing all-around to be discussed at all. All this may be in the necessary interest of preventing further deterioration of a bad all-over situation with the Soviet, particularly during the duration of the Paris Conference, but it is not helping the prestige of UN.

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Iran's reply to the Council on Monday embodies the usual confusion, this time with respect to its oscillating attitude concerning the Province of Azerbaijan. Here is the text of Hussein Ala's reference thereto:

"So far as the Province of Azerbaijan is concerned, the Government has been informed through other sources that the evacuation of Soviet troops from that Province has been going forward and, it is said, will have been completed before May 7, 1946. These reports have not been verified by direct observations of officials of the Iranian Government. The reason for this is that, as previously pointed out to the Council, the Iranian Government has been unable, because of the interferences complained of, to exercise effective authority within Azerbaijan since Nov. 7, 1945, and from that time to the present has had no opportunity to ascertain through its own officials what are the conditions prevailing throughout that Province. While it is hoped that arrangements can be made which will remove the unfortunate results of the interferences complained of, it is impossible to forecast at this time with certainty what the subsequent developments will be.

"As soon as the Iranian Government is able to ascertain through its official representatives the true state of affairs in the Province of Azerbaijan, the facts will be reported promptly to the Council."

Not only has the Iranian attitude on this question been inconsistent and otherwise incomprehensible, but, as pointed out in these columns last week, the nature of the arrangement with Russia is very obscure. The Russian-Iran "agreement" of April 4 leaves completely confused the question of what the legal status of the Soviet Government there is, and to what extent Ghavam did give to Moscow any rights of intervention in what Iran itself had on various occasions insisted as an internal affair. It is to be hoped that the departure from the scene here of Colonel Hodgson, Australia's "thorough researching" delegate, will not lessen the Council's efforts and ability to bring the matter to a clarified conclusion.

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Moscow's Growing Intransigeance

In line with the underlying Russian attitude, with her truculence here at Hunter as well as in Paris, is Monday's outburst in the Moscow newspaper "Pravda." Apart from the nonsensical accusations against Britain and the United States, what is important is the now openly-revealed policy of discrediting the UN. By "nonsensical accusations" are meant statements such as that "the Americans and British are uprooting UN's authority"; that it is they who are violating Iran's sovereignty and "trampling the independence of small countries." It should be noted that, apart from the Soviet's current unsatisfactory behavior in the Iran situation, neither Mr. Gromyko here, nor the Government in Moscow, nor the Russian press, have vouchsafed one word of explanation for the acknowledged presence of Russian troops in Iran **after March** 2—a flagrant treaty violation.

Wholly unjustified is the constantly-repeated technique—as again in Stalin's May Day accusations about capitalist war-preparations—of making Great Britain and the U. S. the whipping-boys for Moscow's UN vituperations. The procedure in keeping the Iran matter on the agenda followed in large part the obviously independent views of Col. Hodgson of Australia; the disposition of the Franco matter was guided by Hodgson and Van Kleffens of the Netherlands, and the Soviet agitation for veto-widening is being opposed chiefly by China and Australia. And the voting adverse to Russia has in all cases been by overwhelming majorities of not less than eight against three. The vote for the sub-committee on Spain, from which Gromyko abstained, was 10-0, with even Poland deserting Russia.

* * *

Certain it is that there must be open reconciliation of whatever conflict there may be in Mr. Stalin's line. He will have to be unequivocal at least as to whether he thinks the United Nations truly represents a group of freedom-seeking countries, or whether, as he continually charges, they are imperialist aggressors who for their "capitalist interests" are stirring up World War III.

A typical give-away of both the frame of mind and the real purposes of Stalin, seems to be revealed in his manifested reactions to Secretary Byrnes' formal proposal for a 25-year pact barring a resurgence of Germany or Japan. The continually repeated excuses for Russia's ever-widening aggressions has been her need for belts of security. But when the United States abandons her traditional policy of non-entangling alliances unequivocally to allay these alleged fears, Moscow's response ranges from initial skepticism to direct accusations that this is an anti-Communist plot.

If Stalin really wants some kind of rapprochement with the capitalist world, it is high time that he make some definite statement as to exactly what he wishes from it. Otherwise the manifested deterioration of an acutely critical situation must multiply!

* * *

The Veto Still A Basic Threat

The Council of Experts' abandonment of the new veto controversy, as too hot to handle, insures a vigorous and open "floor fight" when the Soviet first attempts to impose its widened interpretation on the Council. While it was realised that a final decision on this question, like all others, must be made in open session, it had been hoped that the experts would at least come in with a constructive compromise that might pave the way toward agreement. Although, as he told a press conference this week, Secretary General Lie has the right to enter debate (as he did on the Iran question), it now appears certain that neither he nor the Committee of Experts will appear with any suggestion on this question.

For a formal amendment to the Charter under section 108, it is necessary to have the matter considered by the full Assembly with ratification by two-thirds of the 51 member nations, including each of the Big Five. Short of this, for an interpretation of existing rules, a controversy (such as over the veto) can be brought before the World Court. But the delay entailed in either of these steps would hamstring the sitting Council to such an extent as to make inevitable an explosive threshing-out of the matter by the Council itself.

The renewed trouble is caused by the fact that the Russians want the veto privilege extended even more widely than the latitude they gained therefor in Yalta and San Francisco. In effect what they now want is to permit any one of the Big Five to prevent any matter from even being **raised.** As the Charter now stands, the veto can be exercised only on **substantive**, and not on **procedural** matters. **In connection with the very determination of whether a particular matter is to be considered substantive or procedural, the Russians now insist on the right of veto.**

Following is the Russian proposal in detail:

> "The decision of whether the question under consideration by the Security Council is of procedural nature and also whether the question is a dispute or a situation and whether this dispute is of the nature referred to in Article 33 of the Charter, shall be regarded as accepted if it is voted for by seven members of the Security Council, including the concurring votes of all the permanent members of the Security Council."

Concurrence with this demand, insuring the Council's complete paralysis regarding consideration of any matter distasteful to any of the Big Five, would certainly make of the Organization nothing more than a travesty on real world government.

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Palestine and UN

Repercussions following the Anglo-American Commission's report on the Palestine problem already make it clear that there will be plenty of political trouble over that situation both within and without the United Nations. The crying humanitarian need for quick action cannot be satisfied by Great Britain, because of deep seated political reasons; nor by the United States, because of general unwillingness to get militarily embroiled. Hence action will no doubt have to wait on UN which does not now have the machinery to arrange the suggested migration.

At a press conference this week Secretary General Lie clearly indicated that Palestine constitutes another matter too hot for either the Council or himself to handle. Questioned whether he expects to submit any recommendations of his own on the subject, as he did respecting Iran, his only reply was that he doesn't know the facts yet. Fortunately the matter has not been raised as yet by any member of the Council. But the 51 members of the General Assembly gathering in September will no doubt find in Palestine a guarantee against placidity in Flushing Meadow.

Palestine is now mandated territory under the defunct League of Nations, while the UN trusteeship arrangements are still barely embryonic. The following four alternative outcomes, including three methods of trusteeships, are possible:

1. The British could convert the present mandatory arrangement with UN as the successor to the League, and with Great Britain as the sole mandatory power.
1. There could be a joint trusteeship, consisting of the British with one or more other Powers.
3. There could be collective trusteeship, under all the countries in UN, with UN troops keeping order.
4. The present mandate, as well as successor trusteeship, could entirely lapse, leaving Palestine free, independent, and "on the loose."

While the administration of Palestine under a UN trusteeship is generally hailed as a way out—the American Jewish Committee says this "is salutary and well designed to cause the government of the country to be in the interest of peace, justice and the welfare of all the inhabitants"—any of the methods presents great difficulties. Regarding alternative No. 1: Britain cannot take sole responsibility as trustee, if as is apparent—it is going to entail important obligations in connection with enlarged Jewish immigration. Besides there is grave doubt whether the Soviet Union would let this opportunity pass for ending sole British control. As to alternative No. 2: first there would be the question as to the identity of the joint trustee powers. United States opinion would no doubt veto our participation in the mandate, reflecting, from our self-interest, the thought of the London "Daily Mail" voicing "regret that no immediate prospect is held out of any share by the United States or other nations in the **cost, the sacrifices of life, and the odium, which rule in Palestine inevitably entails."** Regarding alternative No. 3: respecting collective trusteeship, Britain's inclination to welcome this way of washing her hands of the matter would be counterbalanced by her worry over resultant threats to Suez and her lifeline. As to alternative No. 4: leaving the whole matter lapse and "on the loose" would be wholly impracticable, as setting up a permanent focal point of international friction.

Under the procedural rules governing the UN Trusteeship Council's procedure, the transference from the present arrangement of the British mandate under the defunct League, can be indefinitely postponed. In fact, despite the expiration of the League, no action whatever need be taken.

This is so because although the UN Trusteeship Council is now in the process of formation here the *initiative* for placing territories under trusteeship does not lie with this Council or with any part of the United Nations as a body, but comes from agreements *voluntarily* entered into between interested individual nations. *After* such agreement has been made, the matter goes to the General Assembly for final disposition. The Trusteeship Council functions merely as a channeling agency, between the individual countries and the General Assembly.

As far as the Security Council is concerned, no power in trusteeship exists there either. The only way in which the Palestine matter can come there (which well may eventuate) is if some country brings it there as allegedly harboring a situation leading to international friction or a threat to peace.

An explosive situation on broad international lines will be created by the fruition of current threats, thus bring the matter before the Security Council now, as a situation threatening international peace and security. The humanitarian Jewish question would then truly be a political football of power politics. Not only is this area and Arab influence of the utmost importance to Great Britain, but Russia, with her own political aims, would then surely be brought in—if not before, through direct Arab request for intervention.

Fund and Bank Developments

(Continued from page 2502)

of the executive directors of the Fund.

Following the meeting of the directors of the International Monetary Fund, Mr. White, the executive director, issued the following statement:

"We have the honor to meet as the board of executive directors of an organization new in the annals of international monetary practice. I am sure that we are assuming the responsibilities of our office in that spirit of humility which our difficult task and our profound obligations to the world evoke. The opportunity we have for helping to promote monetary stability, a high level of international trade and world prosperity is very great. We want to meet that challenge.

Harry D. White

"The problems before us, as we all appreciate, are extremely complex. They will demand all that we possess of wisdom, experience, good will and economic statesmanship. Our hope of helping lies in being able to pool these resources for the benefit of all countries.

"I need not remind you that we are pioneering. There is much that we must explore, there is much we have to learn. We must proceed very carefully and not be discouraged because accomplishment does not keep pace with our desire. Our chief function is to counsel, guide, and help. In proportion as we earn the confidence of the world our influence toward sound monetary policy will increase.

"I want to welcome all of you here on behalf of the American people. They have taken an active interest in the development of the International Monetary Fund and the International Bank. The American people and their Government are eager to help us fulfill the promise this organization holds for the world."

As foreshadowed in these pages, the Fund and Bank are soon to share quarters in an office building at 1818 H Street NW, now occupied as a State Department annex. As the Fund and Bank grow, in staff, the State Department is expected to relinquish more and more space in this building.

Insofar as possible the Fund and Bank executive directors will dovetail their meetings so as not to conflict with each other, for some of the alternate executive directors will serve both institutions. Mr. Goffin of Belgium, to take an example, is temporary alternate to both Fund and Bank.

Fund Not Ready for Operations

The Fund has many topics to tackle before it will be ready to commence currency-stabilization operations. For some of these questions informal committees were appointed on May 6, but permanent committees and committee assignments must be decided upon soon as well as procedures for the meetings of the directors.

Having selected a general manager, Mr. Gutt, the Fund executive directors must determine the terms of his contract with that body. Then it must decide on the form of organization it will adopt, the staffing thereof and the functions of the various divisions and officers. One officer who will be needed soon is a public relations officer to handle inquiries from the press and issue public releases.

When such initial questions have been disposed of and the executive directors have been housed and equipped with secretaries etc., the Fund executive directors must decide on rules and regulations for the conduct of the Fund's business. They will also have to render the interpretations of the Articles of Agreement, as requested at Savannah by Britain, U. S. and India. The inquiry from the American Government arose from a stipulation Congress wrote into the Bretton Woods enabling Act.

Among the subjects listed for the attention of the Fund's directors is the carrying out of a direction adopted in the form of a resolution at Savannah, relating to the tax exemption of the Fund's officers and employees. The salary of the executive directors as adopted at Savannah is $17,000 a year after national income taxes. For the American executive director, Mr. White, this figure is the equivalent of approximately $25,000 a year before taxes. The Savannah arrangement is for the Fund to reimburse its officers for any national income taxes due on their Fund salaries so as to leave after taxes $17,000 a year for each executive director and $11,500 for each alternate. The purpose of the Savannah resolution referred to above is to relieve the Fund of the reimbursement obligation by having member countries enact tax exemption for those on the Fund payroll. (The same applies to the World Bank.)

The executive directors must adopt a budget, in accordance with the by-laws. They must provide for liaison with the Economic and Social Council, UNRRA, and other international bodies. They must soon take up Paraguay's request for an increased quota, and the membership applications from Italy, Turkey, Syria and Lebanon. All these are questions for early consideration. Later, the executive directors must determine a long list of operating decisions, notably the determination of initial parities.

Vinson Hails Inauguration

Secretary of Treasury Fred M. Vinson, who is American governor of both the Fund and the Bank, hailed the establishment of these two international institutions in the following statement to the "Chronicle":

"The International Fund and the International Bank are now working institutions. That is the significant achievement of the Inaugural Meeting of the two Boards of Governors at Savannah.

"The principles of international economic cooperation adopted at Bretton Woods must be put into practice. The Fund and the Bank are beginning their great task of helping to restore and maintain order and stability in international economic relations. On what they do will depend to a large extent the kind of world we shall have.

"In this difficult work the Fund and the Bank will need, and I am sure they will have, the constant help and support of the business and banking community and of all the people."

Bank Directors Meet

At the first meeting of the executive directors of the World Bank, held in the State Department annex on H Street, N. W., it was decided to postpone selection of a President until the United States Government reaches a decision as to it's nominee. This, it was indicated by the American executive director in a press conference, may not be for a fortnight or longer.

The Bank will for the present occupy the tenth floor of the above mentioned building, which is one of Washington's more modern office buildings, equipped with air conditioning. The Fund will be on a lower floor of this building.

The Bank has decided to hire such employees as are necessary at the present stage of its development.

It was decided to hold meetings of the directors regularly on Tuesdays and Thursdays.

Like the Fund, the Bank must soon consider such matters as liaison with other bodies, admittance of new members, rendering of the interpretations requested at Savannah by the American and Indian delegations, etc. Since membership in the Bank is contingent upon membership in the Fund, this must be taken into account in respect to the four pending applications from Italy, Turkey, Syria and Lebanon. All these applications, it will be recalled from Savannah, have the support of the United States; although Italy's present political status is awaiting change.

As in the Fund, committees will be appointed in the Bank to consider the institution's work, such as the flotation of securities to raise money, and the making of loans. Meanwhile, temporary committees have been set up on procedures, administrative matters, liaison with other agencies, and applications for membership.

There is no indication at this writing as to whom the United States will nominate as President of the Bank. That it will be an American is certain. Secretary Vinson in a press conference not long ago brought up certain rumors and denied that he would be the man. But friends of the Judge would be pleased, were he to get this high-salaried post as a reward for the many years he has devoted to the public service in one capacity or another. The presidency of the World Bank, like the general managership of the Fund—to which Mr. Gutt of Belgium was elected this week—pays $30,000 a year, plus taxes and expenses. (In this election Mr. Gutt is fortunate, for Premier van Acker of Belgium has just announced his intention to peg Belgian salaries where they are today.)

Mr. R. H. Brand, temporary British executive director of the Bank, has appointed as his alternate Mr. Horace D. Brooks who has been connected with the British Treasury in the capacity of "principal," a position said to correspond roughly with division chief in the American Government service. Mr. Moller of Chile has appointed as his alternate Mr. Mario Illanes, commercial counsellor of the Chilean Embassy in Washington. Mr. Illanes attended the Savannah meetings in March as an advisor to the Chilean delegation. Felipe Pazos of Cuba, alternate to Dr. Machado, has been commercial attache of Cuba in Washington.

The full list of the Bank's executive directors and alternates as of May 7 is as follows:

Executive Directors of the World Bank

United States—Emilio G. Collado
United Kingdom — Sir James Grigg* (R. H. Brand, temporary executive director; Horace E. Brooks, alternate to temporary executive director)
China—Shen Yuen-Ting
France—Pierre Mendes-France* (Leonard B. Rist, alternate)
India—N. Sundaresan
Greece—Prof. Kyriakos Varvaressos
Chile—Victor Moller (Mario Illanes, alternate)
Cuba—Dr. Luis Machado y Ortega (Felipe Pazos, alternate)
Belgium—Camille Gutt (Louis Goffin, alternate)
Netherlands — J. W. Beyen* (Crena de Iongh, alternate)
Canada—R. B. Bryce
Poland—Dr. Leon Baranski

Explaining the World Bank to Britons

In the Anglo-American News for April, published by the American Chamber of Commerce in London, appears an analysis of a booklet by a British author. The analysis is entitled, "The Reality of American Goodwill." Indicative of the problems of selling Bretton Woods and the Anglo-American loan to the British public is the following comment by the chamber:

"How many Britons (or Americans for that matter) know that capital loans through the World Bank . . . although raised in the American market, will not necessarily purchase American goods? 'British exporters will have the liberty of competing for orders arising out of development projects financed by American money,' says Mr. Harrod. This principle was . . . first proposed by the Americans and is incorporated in the Bretton Woods Agreement."

This statement fails to give realization to fact that ultimately dollars lent abroad must be spent in this country for American goods and services, whether by the original borrower or someone else—unless they should be spent for gold. And even in that case, the chances are that at some time in the past American goods and services were exported in payment for the gold.

*Sir James Grigg, Pierre Mendes-France, and J. W. Beyen are unable to attend the first meetings.

"Fact-Finding"

(Continued from page 2513)

fact-finding board, and so on. All these things are supposed to prevent inflation. *Yet, Congress is now passing a minimum wage bill which is the greatest inflation-producing law ever conceived.*

All these things are done without any regard for the nation's welfare; but only to help Congressmen get re-elected. They know in their hearts that all these "fact-finding" boards and the wages-prices-profits legislation will lead to utter confusion so that the entire structure will fall as the Tower of Babel did 3,000 years ago. Yet, during these 3,000 years the same "fact-finding" schemes have been tried by many great nations such as Babylonia, Persia, Egypt, Greece, Rome, Spain and finally France. All were found unworkable and given up.

Two Basic Laws

Now let me put readers right on two fundamental economic truths which are as sound and unchangeable as the multiplication table. The *first* is that wages, prices, profits, etc., will adjust themselves if let alone; but will cause unemployment if monkeyed with. They all are linked together like the wheels of a watch.

The *second* is that the only solution of everyone's problem is a proper mixture of work, education and religion. These are two facts which history has proved to be true but politicians hate to admit.

We All Must Work Harder

When we apply these two facts to the present situation, the answer is this: The country can stand the new wage increases okay if prices are allowed to find their natural level under a truly free competitive system with the same laws applying to employers and wage workers. I, however, make this one provisio: AS WE RETURN TO WORK, WHETHER FROM THE ARMY OR FROM STRIKES, WE ALL—EMPLOYERS AND WAGE WORKERS—MUST DO SO WITH A DETERMINATION TO PRODUCE MORE AND BETTER PRODUCTS. UPON THIS, ALL FACT-FINDING DEPENDS.

Of course, we cannot keep hiking wages and prices indefinitely without the balloon bursting. As the collapse of the 1910's was caused by the railroads getting too powerful; as the collapse of the 1930's was caused by the utilities getting too powerful; so the next collapse of the 1950's will be caused by labor unions getting too powerful. Today, the labor barons are making the same mistake as did the railroad and utility barons years ago. But business should be so good for a few years that we can stand a general wage raise if we all will cheerfully put our shoulders to the wheel and produce to our very utmost. This should be accompanied by even higher stock prices.

Spiritual Awakening

Whenever I refer in this column to the need of a "spiritual awakening," I have a flood of letters asking me to explain what I mean. Readers seem to think I am interested in some special theology or creed. Let me say again that there is no formula or definition of what is needed for a spiritual awakening. In fact, it varies from time-to-time. *Today, however, it means a desire by us all to produce as much as possible for the good of all God's creatures.*

Near-Term Risks

(Continued from page 2505)

stricted markets can be. It has been widely assumed that the many restrictions and regulations placed upon the market have made it a safer vehicle for investment and speculation than formerly. Actually what has happened has been that the shock absorbers and springs have been eliminated so that there is always the danger that a severe jolt will break an axle.

The "spending" stocks, of which retail trade and movies are typical, have had substantial rises thus far this year, reasonably enough predicated upon the high rate of public spending. There is no assurance, however, that this spending will continue at recent rates, especially if further prolongation of the coal strike should slow industrial activity. These stocks have reached levels that raise the risk of at least substantial reaction.

Among groups that would look attractive for purchase on a decline might be included building stocks, chemical shares, metals, oils, machinery, farm equipment and instalment finance stocks.

The prospect still is that, given six months of active production, uninterrupted by strikes, Government controls and other interferences, the Federal Reserve Index of Production would rise to approximately 180-185, a level of activity which, together with a price level only moderately above recent levels, would permit sufficient earning power on the part of many corporations to permit a trend toward higher dividend payments and pave the way for materially higher stock prices. But the impediments in the way of this prospect are still present, and in the process of their removal we seem likely to get a highly irregular and widely swinging market.

Donald Fletcher Now With William Blair & Co.

CHICAGO, ILL. — Donald T. Fletcher has become associated with William Blair & Company, 135 South La Salle Street, in the trading department. Prior to entering the U. S. Army, Mr. Fletcher was in the investment department of the Continental Casualty Company.

Securities Now in Registration

● INDICATES ADDITIONS SINCE PREVIOUS ISSUE

● **Alaska Explorations, Inc., Seward, Alaska**
April 26 (letter of notification) 1,000,000 shares (par 10¢). Price to public 10¢ per share. No underwriter selected at this time. Purchase of mining equipment, development, etc.

Aldens, Inc., Chicago, Ill. (5/14)
April 25 filed 40,000 shares cumulative preferred stock (par $100). Dividend rate by amendment. **Underwriters**—Lehman Brothers. **Offering**—Price to public by amendment. **Proceeds**—$1,500,000 to reduce company's outstanding $3,000,000 3% sinking fund debentures to $1,500,000 and balance added to working capital. For details see issue of May 2.

All American Aviation Inc., Wilmington, Del.
April 24 (letter of notification) 3,602 shares common (par $1). **Offering**—Price $5. No underwriting. **Proceeds**—Working capital.

● **American Canadian Mineral Explorations, Inc., Seattle, Wash.**
April 30 (letter of notification) $59,000 par amount to be raised by loan subscription contracts consisting of 590 contracts $100 face value each. Price to public $100 per unit.

● **American Optical Co., Southbridge, Mass.**
April 29 (letter of notification) 400 shares common. Being sold by Heywood Fox, Buffalo, N. Y. Private sale for cash. Net proceeds at present market prices estimated would not exceed $23,000.

American Screw Co., Providence, R. I. (5/31)
March 29 filed 21,550 shares of 4½% cumulative convertible preferred stock (par $50) **Underwriters**—G. H. Walker & Co. **Offering**—Common stockholders of record May 9 have the right to subscribe to new preferred at rate of one share of preferred for each four shares of common held at $52 per share. Rights expire May 29. 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.

Arkansas-Missouri Pwr. Corp., Blytheville, Ark.
April 23 filed 40,000 shares common stock (par $5). Shares are being sold for the account of five stockholders. **Underwriters**—G. H. Walker & Co. and Edward D. Jones & Co. **Offering**—Price to public by amendment. **Business**—Public utility.

Astor Financial Corp., New York
April 29 (letter of notification) 5,948 shares of class B stock (par $10). **Offering**—The stock is being offered to holders of class B stock at $10 per share. Payments may be made at any time up to May 31 (3 p.m., EDST). Ira Guilden, a stockholder and director, has agreed to purchase at $10 per share all unsubscribed shares.

Barium Steel Corp., S. E. Canton, O.
March 30 filed 350,000 shares of common stock (par $1). **Underwriters**—Laird, Bissell & Meeds have withdrawn as underwriters. **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.

● **Bardwell & McAlister, Inc., Los Angeles**
May 3 (letter of notification) 50,000 shares common (par $1). Price to public $6 per share. **Underwriter**—Cruttenden & Co. To increase working capital.

● **Belcher Oil Co., Miami, Fla.**
May 3 (letter of notification) 6,710 shares common stock (par $10). The shares are being sold by certain stockholders. The price to the public is $12 per share. **Underwriter**—Atwill & Co. will act as agent in connection with the offering.

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.

Beneficial Industrial Loan Corp., Wilmington, Del. (5/13)
April 18 filed $20,000,000 15-year debentures, 100,000 shares cumulative preferred stock (no par), and 400,000 shares common stock (no par). **Underwriters**—For debentures and preferred stock Eastman, Dillon & Co. **Offering**—The common stock will be offered to holders of common stock for subscription at $12.50 per share, on basis of one share for each five shares held. Offerings of common stock not underwritten. Price to public of debentures and preferred stock by amendment. **Proceeds**—Approximately $17,400,000 to redeem 10-year 2¼% and 15-year 2¾% debentures; balance is to be placed in general funds which company may use to reduce outstanding bank loans and commercial paper. For details see issue of April 25, page 2262.

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.

● **Big Lake Mining Co., Spokane**
May 1 (letter of notification) 200,000 shares common. Price to public 50 cents per share. No underwriter.

Bingham Stamping Co., Toledo, O. (5/18)
April 29 filed 100,000 shares 5% cumulative convertible preferred stock (par $10). **Underwriters**—Wm. J. Mericka & Co., Inc., Cleveland, and Goshia & Co., Toledo. **Offering**—Price to public is $10 per share. **Proceeds.** Financing of acquisition of a majority stock interest in Herbrand Corp. of Fremont, Ohio. For details see issue of May 2.

Bowser, Inc., Fort Wayne, Ind. (5/10)
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.

● **Brandt-Warner Mfg. Co., York, Pa. (5/14)**
May 1 (letter of notification) 100,000 shares common (par $1). Price to public $3 per share. **Underwriter**—F. H. Koller & Co., Inc. Reduction of indebtedness, working capital, etc.

Brockway (Pa.) Glass Co. Inc. (5/13)
April 24 filed 10,000 shares 5% cumulative preferred stock (par $50). **Underwriting**—None. **Offering**—Price to public $50 per share. Company proposes to offer the securities to persons living in Brockway and surrounding communities. **Proceeds**—Company proposes to use proceeds, with proceeds of loan of $1,250,000 as follows: new building, $525,000; new and used equipment, $575,000; leased equipment, $250,000, and working capital, 400,000.

● **Brooklyn (N. Y.) Union Gas Co. (5/23)**
May 3 filed $34,000,000 general mortgage sinking and improvement fund bonds due June 1, 1976, and 100,000 shares of cumulative preferred stock ($100 par). **Underwriters**—To be filed by amendment. Probable bidders include Halsey, Stuart & Co., Inc. (bonds only); Harriman Ripley & Co., and Mellon Securities Corp. (jointly); The First Boston Corp.; F. S. Moseley & Co., and Otis & Co. (stock only). **Proceeds**—Company plans to refund its entire outstanding long-term debt, to reimburse the treasury for expenditures made for construction purposes, and to provide funds for the completion of a construction program now in progress and one contemplated to be commenced in the immediate future by the sale of $34,000,000 general mortgage bonds and 100,000 shares of preferred stock. In addition, a $1,000,000 bank loan will be obtained. The company will redeem $29,240,000 general mortgage sinking fund bonds, 3½% series, due Sept. 15, 1969, and $11,850,000 25-year 4% sinking fund debentures, due Sept. 15, 1969. In addition, $4,000,000 will be used to provide funds for the construction program now in progress and contemplated, each involving the installation of additional production, pumping, storage and distribution facilities.

● **Castle Mining Co., Spokane, Wash.**
April 30 (letter of notification) 500,000 common shares. Price to public 12½¢. **Underwriters**—L. F. Hachez, H. A. Pebles, Preston & Raef, Ben Redfield and First Washington Corp.

Caterpillar Tractor Co., Peoria, Ill. (5/20)
May 1 filed $20,000,000 10-year 1¾% debentures. **Underwriters**—Blyth & Co., Inc.; Dean Witter & Co.; Stone & Webster Securities Corp., and Harris Hall & Co. (Inc.). **Offering**—Price to public by amendment. **Proceeds**—Expansion of company's plant at Peoria. For details see issue of May 2.

Celotex Corp., Chicago (5/15)
April 26 filed for 100,000 shares common stock. **Underwriters**—Paul H. Davis & Co. and Union Securities Corp. **Offering**—Price by amendment. **Proceeds**—To provide in part for expansion program, etc. For details see issue of May 2.

Central Indiana Gas Co., Muncie, Ind. (5/14)
April 25 filed $3,250,000 first mortgage bonds. Bonds will be sold at competitive bidding with the interest rate being named by the successful bidder. **Underwriters**—By amendment. Probable underwriters include Halsey, Stuart & Co. Inc.; First Boston Corp.; Stroud & Co. **Offering**—Price to public by amendment. **Proceeds**—Redemption of first mortgage 3¾% bonds; construction fund. For details see issue of May 2.

● **Ceraseal Chemical Corp., Chicago (5/10)**
May 1 (letter of notification) 60,000 shares 6% cumulative convertible preferred and 120,000 shares (par 1¢) common to be sold as unit of one share of preferred and two shares of common. Price to public $5 per unit. **Underwriter**—Kobbe, Gearhart & Co., Inc. Lease or acquisition of building for plant, working capital, etc.

● **Cessna Aircraft Co., Wichita, Kan.**
May 1 (letter of notification) approximately 13,000 shares common (par $1). To be sold on New York Curb from time to time. **Underwriter** — Auchincloss, Parker & Redpath.

● **Chefford Master Manufacturing Co., Inc., Fairfield, Ill. (5/27)**
May 8 filed 40,000 5% cumulative convertible preferred shares (par 25) and 40,000 common shares (par $2). **Underwriter**—Cruttenden and Co. **Offering**—Price of preferred is $25 per share; price of common by amendment. **Proceeds**—$300,000 will be used to discharge bank loans, $60,963 to discharge machinery purchase notes and approximately $909,694 for additional working capital. **Business**—Automobile replacement parts, etc.

City Investing Co., New York
April 19 filed $4,800,000 convertible sinking fund debentures due June 1, 1961. **Underwriting**—First Boston Corp. **Offering**—Company is offering to holders of common stock of record May 17, 1946, the right to subscribe for the debentures on the basis of $500 of debentures for each 100 shares of common stock. Price by amendment. Unsubscribed debentures will be sold to underwriters to be offered the public. **Proceeds**—Proceeds will be added to working capital. For details see issue of April 25, p. 2262.

● **Clary Multiplier Corp., Los Angeles**
May 6 (letter of notification) $100,000 5% unsecured convertible instalment notes. Price to public $50 per unit, the notes to be issued in units of $50 and multiples thereof. No underwriting.

Columbus (O.) & Southern Ohio Electric Co.
April 19 filed 744,455 shares of common stock ($10 par). Shares are issued and are owned by Continental Gas & Electric Corp. which is selling them. **Underwriters**—To be filed by amendment. Probable bidders include Dillon, Read & Co. Inc.; Smith Barney & Co.; Lehman Brothers; Kidder, Peabody & Co., and Mellon Securities Corp. (jointly). **Offering**—Shares will be sold by Continental at competitive bidding. Price to public by amendment. **Bids Invited**—Bids for the purchase of the stock will be received up to 11:30 a.m. (EDST) May 21.

Compania Litografica De La Habana S. A. (5/20) (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.

● **Coty, Inc., New York City (5/13)**
May 6 (letter of notification) 20,000 shares of common stock. Company intends to sell the shares on the New York Stock Exchange on May 13. Price at market (approximately) $14½. Proceeds to working capital.

● **Crampton Mfg. Co., Holland, Mich. (5/23)**
May 3 filed for 240,000 shares common stock ($1 par). **Underwriters**—Baker, Simonds & Co. **Offering**—Price to public by amendment. **Proceeds**—Purchase of additional machinery and equipment and to increase working capital. **Business** — Commercial die-castings and hardware for plumbing fixtures, etc.

Dayton Power & Light Co.
May 1 filed 1,530,000 shares common stock ($7 par). **Underwriters**—To be named by amendment. Probable bidders include Morgan Stanley & Co., and W. E. Hutton & Co. (jointly); Blyth & Co., Inc., and Lehman Brothers. **Offering**—The shares are owned by Columbia Gas & Electric Corp. and are to be offered for subscription to the common stockholders of Columbia at rate of one share of Dayton for each eight shares of Columbia. Company will ask for bids by underwriters at competitive sale for the purchase of Dayton stock not subscribed. Price to Columbia stockholders will be the price named in the successful bid.

● **Denver Tramway Corp., Denver**
May 3 (letter of notification) 1,000 shares $2.50 (no par) first preferred. Price to public at the market, or approximately $44 per share. Offering by International Trust Co., Denver. The securities are to be sold either direct through International Trust or through Garrett-Bromfield & Co.

Diamond T Motor Car Co., Chicago, Ill.
March 29 filed 60,000 shares of common stock (par $2). Shares are being sold by certain stockholders. **Underwriters**—Hallgarten & Co. **Offering**—Price based on market. For details see issue of April 4.

DuMont (Allen B.) Laboratories, Inc., Passaic, N. J. (5/15)
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 by amendment. **Proceeds**—To expand television broadcasting and manufacturing facilities and operation in the low-frequency fields. For details see issue of April 4.

● **East-West Petroleum, Ltd., Denver**
May 2 (letter of notification) 295,000 shares (par 1 mill). Price to public $1. No underwriter.

Eureka Williams Corp., Detroit
April 17 filed 17,000 shares common stock (par $5). Shares being sold by officers and employees or their relatives. **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. For details see issue of April 18.

Federal Mfg. & Eng. Corp., Brooklyn
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.

New Issue Calendar

(Showing probable date of offering)

May 9, 1946
- Plastic Insulator Co., Inc.—Common
- Nashville, Chattanooga & St. Louis Ry. Noon (EDST)—Bonds

May 10, 1946
- Bowser, Inc.—Preferred
- Ceraseal Chemical Corp.—Preferred and Common
- 465 West 57th St. Ownership Corp.—Common
- Mortgage Associates, Inc.—Preferred and Common
- National Plumbing Fixture Corp.—Preferred
- Pressurelube Inc.—Common
- Walworth Co.—Debentures and Preferred

May 11, 1946
- National Bellas Hess, Inc.—Common

May 12, 1946
- Island Air Ferries Inc.—Preferred
- Merchants Distilling Corp.—Common

May 13, 1946
- Beneficial Industrial Loan Corp.—Debentures, Preferred and Common
- Brockway Glass Co.—Preferred
- Coty, Inc.—Common
- Hanson-Van Winkle-Munning Co.—Debs. & Com.
- Hoffman Radio Corp. (13/17)—Common
- Holly Stores, Inc. (13/14)—Preferred and Common
- Midwest Rubber Reclaiming—Pfd. and Common
- Piper Aircraft Co.—Common
- Super-Cold Corp.—Common

May 14, 1946
- Alden's Inc.—Preferred
- Brandt-Warner Mfg. Co.—Common
- Central Indiana Gas Co.—Bonds
- Florida Ramie Products, Inc.—Class A Stock
- Hytron Radio & Electronics Corp.—Common
- Illinois Power Co. 11 a.m. (CDST)—Bonds and Debentures
- Pensylvania-Dixie Cement Corp.—Capital Stock

May 15, 1946
- Celotex Corp.—Common
- DuMont (Allen B.) Laboratories Inc.—Common
- Food Fair Stores Inc.—Common
- Goodall Rubber Co.—Preferred
- Hudson Motor Car Co.—Common
- International Paper Co.—Preferred
- Kiddie (Walter) & Co. Inc.—Common
- L'Aiglon Apparel Inc.—Common
- Lynch Corp.—Common
- McGraw (F. H.) & Co.—Preferred and Common
- Mercantile Stores Co., Inc.—Common
- Miles Shoes Inc.—Preferred and Common
- Neiman-Marcus Co.—Preferred
- Piper Aircraft Corp.—Preferred

May 15, 1946
- Radford (J. M.) Grocery Co.—Preferred
- Standard Oil Co. (N. J.)—Debentures

May 16, 1946
- Peerless Casualty Co.—Common

May 18, 1946
- Bingham Stamping Co.—Preferred
- Miller-Wohl Co.—Preferred and Common

May 19, 1946
- Harrison Wholesale Co.—Common
- Michaels Brothers—Common
- Minneapolis-Honey Regulator Co.—Preferred

May 20, 1946
- Caterpillar Tractor Co.—Debentures
- Havana Lithographing Co.—Pfd. and Common
- Heyden Chemical Co.—Preferred
- New York Stocks Inc.—Special Stock
- Steep Rock Iron Mines, Ltd.—Capital Stock
- Trailmobile Co.—Preferred
- U. S. Airlines Inc.—Common

May 21, 1946
- Columbus & Southern Ohio El. Co. 11:30 a.m. (EDST)—Common
- Thomas Steel Co.—Preferred and Common

May 22, 1946
- General Finance Corp.—Debentures and Preferred
- Liebert & Obert—Common
- Namm's, Inc.—Common
- Public Flyers Inc.—Common

May 23, 1946
- Brooklyn Union Gas Co.—Bonds and Preferred
- Crampton Mfg. Co.—Common

May 24, 1946
- Kansas City Fire & Marine Insurance Co.—Common

May 25, 1946
- Flying Freight, Inc.—Common

May 27, 1946
- Chefford Mastre Mfg. Co.—Preferred and Common
- Midland Cooperative Wholesale—Preferred
- Mountain States Tel. & Tel. Co. 11:30 a.m. (EDST)—Debentures
- Paulsboro (N. J.) Mfg. Co.—Preferred and Common
- York County Gas Co.—Bonds

May 31, 1946
- American Screw Co.—Preferred

June 1, 1946
- United Grocers Co.—Debentures

● **Flying Freight Inc., New York (5/25)**
May 6 filed 300,000 shares common stock (par $1). **Underwriters**—J. F. Reilly & Co., Inc. **Offering**—Price to public $3.50 per share. **Proceeds**—Proceeds will be used for the purchase of six land planes, ten flying boats, reconditioning of flying boats and working capital. **Business**—Company was incorporated on March 9, 1946, to operate as a charter air carrier.

● **Florida Ramie Products, Inc., New York (5/14)**
May 6 (letter of notification) 10,000 shares of class A capital stock (par $10) to be offered at par. Proceeds to be used to finance project of cultivating and processing Ramie fiber product. No underwriters.

Food Fair Stores, Inc., Philadelphia (5/15)
April 29 filed 40,000 shares of common stock ($1 par), issuable upon exercise of options to purchase common stock. The options to purchase common stock entitle the holders to purchase between Sept. 5, 1946 and Sept. 4, 1950, shares of common stock at $19.50 per share. The options were granted on Sept. 5, 1945. **Proceeds**—In the event that all options are exercised, corporation will realize $780,000, which it intends to use for increasing inventory, acquiring and equipping additional supermarkets, warehouses, etc. **Business**—Food stores.

● **465 West 57th St. Ownership Corp., N.Y. (5/10)**
May 3 (letter of notification) 435 shares of common stock (par $100). Price per share $100. Proceeds will be used to pay certain individuals for their interests in the building, which have five-year lease of apartments, renewable for five-year terms.

● **General Finance Corp., Chicago, Ill. (5/22)**
May 3 filed $1,250,000 15-year 4% subordinated debentures, Series B, and 60,000 shares 4% cumulative convertible preferred stock, Series C (par $50) and 180,000 shares of common (par $1) reserved for conversion of preferred. **Underwriters** — Paine, Webber, Jackson & Curtis. **Offering**—Price to public by amendment. **Proceeds**—The proceeds estimated at $4,055,000 will be used on Nov. 25, 1946, to retire the outstanding 6% cumulative preferred stock, Series B at an aggregate redemption price of about $761,000, and remainder approximately $3,294,000 will be added to general working funds of company. These funds may be used for the development of additional retail and wholesale financing in the automobile, home appliances and consumer credit field, etc. **Business** — Automobile and appliance financing, small loans, industrial financing, insurance and manufacturing.

(Continued on page 2550)

(Continued from page 2549)

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.

● **Goodall Rubber Co., Trenton, N. J. (5/15)**
May 6 (letter of notification) 1,000 shares of 5% preferred stock (par $100). Proceeds will be used to partially replace cash used to call 7% preferred stock at $100 per share ($161,700 cash used). No underwriters. Company will accept subscriptions on basis of two shares of 5% preferred for each three shares of 7% formerly held. Price par and dividend.

Gulf Atlantic Transport'n Co., Jacksonville, Fla.
Jan. 17 filed 270,000 shares of common stock (par $1). **Underwriters**—Allen & Co. have withdrawn as underwriters. **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. Postponed indefinitely. For details see issue of Jan. 24.

Hanson-Van Winkle-Munning Co., Matawan, N. J. (5/13)
April 24 filed 1,250,000 4½% sinking fund debentures and 105,000 shares of common stock ($3.50 par). Of the common stock 39,400 shares are being sold by the corporation and 65,600 shares by certain stockholders. **Underwriters**—Maxwell, Marshall & Co. **Offering**—Debentures are being offered at 100 and the common stock at $10.65 per share. **Proceeds**—Approximately $600,000 will be used to retire first preferred stock at $40 per share, $600,000 for payment of bank indebtedness and $143,500 for the purchase of additional land and buildings. For details see issue of May 2.

Harrison Wholesale Co., Chicago, Ill. (5/19)
April 30 filed 85,600 shares of common stock (par $1). Shares are being sold by two stockholders, Albert L. Arenberg, President, 73,000 shares, and Louis Sisskind, Vice-President and Secretary, 12,600 shares. **Underwriters**—Brailsford & Co. **Offering**—Price to public $9.625.

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**—To be named by amendment. **Offering**—Price to public by amendment. Stop order hearing continued by the SEC to May 13. For details see issue of March 7.

Heyden Chemical Co., New York (5/20)
May 1 filed 90,000 shares cumulative preferred stock, series A. **Underwriters**—A. G. Becker & Co., Inc. **Offering**—Price to public by amendment. **Proceeds**—$4,983,000 will be applied to redemption of 38,000 shares of 4% cumulative preferred series A and 10,000 shares of 4% cumulative preferred series B and $2,500,000 to prepay a promissory note. For details see issue of May 2.

Hoffman Radio Corp., Los Angeles (5/13-17)
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 (5/13-14)
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. For details see issue of April 8.

● **Hope Enterprises, Inc., Los Angeles**
May 6 (letter of notification) 1,000 shares common. No underwriting. Price to public $150 per unit. Production of motion pictures, etc.

Hudson Motor Car Co., Detroit, Mich. (5/15)
April 26 filed 226,973 shares of common stock (no par). **Underwriters**—W. E. Hutton & Co. **Offering**—Stock will be offered for subscription to common stockholders at the rate of one share for each seven shares of common held. Price by amendment. **Pursepose**—To augment working capital. For details see issue of May 2.

Hytron Radio & Electronics Corp., Salem, Mass. (5/14)
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. **Underwriters**—Probable bidders include Halsey, Stuart & Co. Inc., and The First Boston Corp. **Bids Invited**—Company will receive bids for the purchase of the above securities up to 11 a.m. (CDST) May 14, at Room 1567—231 So. La Salle Street, Chicago. Coupon rates are to be specified in the bids.

International Paper Co., New York (5/15)
April 26 filed 400,000 shares of cumulative preferred stock and an indeterminate number of common shares (par $15). Dividend rate on new preferred will be filed by amendment. **Underwriting**—The securities are to be offered for exchange and no underwriting discounts or commissions are to be paid in connection with the offering. **Offering**—Company proposes to offer holders of its cumulative convertible 5% preferred stock (par $100) the right to exchange 400,000 of such shares for new preferred and common on the basis of one share of new preferred and an indicated fractional share of common for each share of 5% preferred. For details see issue of May 2.

● **Ira Guilden, New York**
May 1 (letter of notification) options covering purchase of 6,000 shares $1.20 cumulative convertible preferred of Longine-Wittnauer Watch Co., Inc.

● **Island Air Ferries, Inc., Bohemia, L. I., N. Y. (5/12)**
May 3, 124 shares of preferred and 41 shares capital stock. Offering of 41 units consisting of three preferred and one class B share at $300 per unit. No underwriting. For working capital.

Jersey Central Pwr. & Lt. Co., Asbury Park
April 24 filed $34,000,000 first mortgage bonds and 145,000 shares of cumulative preferred stock (par $100). Interest and dividend rates by amendment. **Underwriters**—By amendment. Probable underwriters will include Halsey, Stuart & Co. Inc. (bonds only); Harriman Ripley & Co. (bonds only); Merrill Lynch, Pierce, Fenner & Beane (stock only); First Boston Corp.; Glore, Forgan & Co. (stock only). **Offering**—Prices to public by amendment. **Proceeds**—To redeem and retire all of the presently outstanding bonds, notes and preferred stock. For details see issue of May 2.

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.

● **Kiddie (Walter) & Co., Inc., New York (5/15)**
May 6 (letter of notification) 2,000 shares of common stock for the account of certain stockholders. Stock will be sold on the New York Curb Exchange at market (approximately) $24.50 per share.

● **Knott Corp., New York**
May 3 (letter of notification) not less than 8,571 and not more than 9,090 shares of capital stock, par $1. **Underwriter**—Reynolds & Co. The price to the public shall be determined by Reynolds & Co. in connection with a formula. For working capital.

● **Lattner Industries, Inc., Detroit**
May 1 (letter of notification) 100,000 shares common (par $1). Price to public $1 per share. **Underwriter**—Chapin & Co. For operating capital-expansion purposes.

L'Aiglon Apparel, Inc., Philadelphia (5/15)
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**—Purchase of new machinery and equipment; new plant, etc. For details see issue of April 18.

● **Liebert & Obert, Philadelphia, Pa. (5/22)**
May 3 filed 120,000 shares common stock (par $1). Of total company is selling 40,000 shares and stockholders 80,000 shares. **Underwriters**—Newburger & Hano and Kobbe, Gearhart & Co., Inc. **Offering**—Price to public $6.50 per share. **Proceeds**—Net proceeds to company will be used, together with funds in treasury, to purchase the brewery plant and equipment now operated under lease for $325,000. It is estimated net proceeds from sale of stock will approximate $221,000 and balance payable out of corporate treasury $104,000. **Business**—Brewery.

Longines-Wittnauer Watch Co., Inc., New York
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, Ind. (5/15)
March 29 filed 75,000 shares of common stock (par $2). **Underwriters**—Kidder, Peabody & Co., and Collin, Norton & Co. **Offering**—Holders of common stock of record May 2 are offered the right to subscribe at the rate of one share for each five shares held at $15 per share. Rights expire May 14. 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**—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. (5/15)
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, Texas
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, preferred $10 per share and common stock $7.50 per share. **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.

● **Marshall Adrian Co., Denver, Col.**
April 29 (letter of notification) 10,000 shares preferred stock (par $10). Price to public $10 per share. **Underwriter**—Robert James Botkin. To assist in expense of publication.

● **Maxson Food Systems, Inc., New York**
May 1 (letter of notification) 5,000 shares common (par 25¢). Being offered by W. L. Maxson Corp. Price to public $1 per share. No underwriting.

Mercantile Stores Co., Inc., New York (5/15)
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.

Merchants Distilling Corp., Terre Haute, Ind. (5/12)
April 23 filed 136,254 shares common stock (par $1). **Underwriters**—Not underwritten. **Offering**—Shares are being offered by the corporation to the holders of its common stock for subscription prior to 3 p.m. June 4, 1946, at $16 per share, pro rata, at the rate of one share for each five shares of common held. **Proceeds**—$1,500,000 of proceeds to reduce loans payable to banks, balance to working capital, to finance work in progress.

Michaels Brothers, Brooklyn (5/19)
April 30 filed 100,000 shares of common stock (par $1); also 60,000 additional shares of which 50,000 are reserved for issuance upon exercise of warrants, and 10,000 shares for issuance upon exercise of options granted to George Markelson and Irving Isaacs. **Underwriters**—Burr & Co., and Reynolds & Co. **Offering**—Price to public by amendment. **Proceeds**—To replace working capital exended to redeem class A and B first preferred stock; balance will be used to increase merchandise inventories, finance instalment sales, etc. For details see issue of May 2.

● **Mid-Alamo Oil Co., Inc., Washington, D. C.**
April 29 (letter of notification) 300,000 shares of common (par $1). Of these 160,000 shares are issue to Joseph E. Popkins in consideration of the oil leases purchased from him. The 140,000 shares will be sold at $1 per share. No underwriter named. Proceeds for drilling, prospecting, etc.

● **Midland Cooperative Wholesale, Minneapolis (5/27)**
May 8 filed 10,500 shares of series D non-cumulative 4% preferred stock (par $100). **Underwriters**—No underwriters. **Offering**—Price to public will range from $100 per unit in January, February and March, 1946, to $103 per units in October, November and December, 1946. **Proceeds**—Proceeds will be used to pay off first mortgage loans with St. Paul bank for cooperatives and for operating capital. **Business**—Registrant is cooperative association, operating a feed mill at Burkhardt, Wis., and a petroleum refinery at Cushing, Okla., and also buys, sells and distributes petroleum products, automotive parts, food, clothing, fertilizer, etc.

● **Mid-States Freight Lines, Inc., Topeka, Kan.**
April 30 (letter of notification) 5,000 shares common and 200 shares preferred. Price to public minimum of $10 and maximum of $15 and of preferred $100. No underwriting contemplated at present. To purchase additional equipment.

Midwest Rubber Reclaiming Co., East St. Louis, Ill. (5/13)
April 18 filed 40,000 shares of cumulative preferred and 31,110 shares of common stock. **Underwriters**—Shields & Co. and Newhard, Cook & Co. **Offering**—Holders of common stock of Mid-West Rubber Reclaiming Co., predecessors are given the right to subscribe to new common stock in ratio of one share of new common for each four shares of precedessor corporation's common stock. Price by amendment. Unsub-

scribed common stock and preferred stock will be offered to public. **Proceeds**—Enlargement and rehabilitation of company's manufacturing facilities. For details see issue of April 25, p. 2264.

Miles Shoes Inc., New York (5/15)
April 29 filed 23,444 shares of cumulative preferred (par $100) and 56,267 shares of common stock (par $1). The shares are to be sold by five stockholders following a recapitalization of the company in May. **Underwriters**—Wertheim & Co., and Lehman Brothers. **Offering**—Price to public will be filed by amendment.

Miller-Wohl Co., Inc., New York (5/18)
April 29 filed 40,000 shares 4½% cumulative convertible preferred (par $50) and 50,000 shares common stock (par 50¢). The common stock is outstanding and is being sold by four stockholders. **Underwriters**—Allen & Co. **Offering**—Price to public by amendment. **Proceeds**—Construct and equip additional stores; working capital. For details see issue of May 2.

Minneapolis-Honeywell Regulator Co., Minneapolis (5/19)
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 preferred stock in an exchange offer which expires May 18. Unsubscribed shares will be sold to underwriters who will offer them to the public at $108 per share. **Purpose**—To refinance preferred stock. For details see issue of April 18.

● **Moore Corporation, Joliet, Ill.**
May 6 (letter of notification) $250,000 first mortgage 4¾% sinking fund bonds. Price to public 100% of principal amount. **Underwriters**—Illinois Securities Co.

Mortgage Associates, Inc., Philadelphia (5/10)
April 22 (letter of notification) 5,000 shares of 5% cumulative preferred stock (par $20) and 3,500 common shares (par $10). **Underwriters**—Butcher & Sherrerd **Offering**—To be offered in units of 10 shares of preferred and 7 shares of common at $207 per unit. **Proceeds**—Working capital.

Mountain States Tel. & Tel. Co., N. Y.
April 26 filed $35,000,000 40-year 2½% debentures and 96,099 shares of common stock ($100 par). **Underwriters**—Bonds will be offered at competitive bidding. Probable bidders include Morgan, Stanley & Co., and Halsey, Stuart & Co. Inc. Offering of common stock not underwritten. **Offering**—The 96,099 shares of common stock will be offered for subscription at par to holders of record May 27, 1946, of the 480,497 shares of common, in the ratio of one share for each five shares then held. **Proceeds**—Proceeds from sale of debentures will be used to retire $30,000,000 3¼% debentures called for redemption June 1, 1946, at 105, and to reduce the amount of advances from American Telephone & Telegraph Co., parent. Company intends to use proceeds from sale of the stock to pay advances from parent. **Bids Invited**—Bids for purchase of the bonds will be received up to May 27 (11:30 a.m. EDST) at office of company, 195 Broadway, New York City. For details see issue of May 2.

Mutual Loan Co., Portland, Ohio
April 25 (letter of notification) 1,500 shares 5% cumulative series preferred ($100 par). **Offering**—Price to public $100 per share. Stock is being sold by officers of company, but stock not sold by them is to be offered by Wm. P. Harper & Sons & Co., Seattle, as agent.

● **Namm's Inc., Brooklyn, N. Y. (5/22)**
May 3 filed 100,000 shares common stock (par $1). The statement also covers 45,000 shares of common issuable upon the exercise of warrants. **Underwriters**—Van Alstyne, Noel & Co. **Offering**—Price to public by amendment. **Proceeds**—Proceeds from sale of 100,000 shares of stock will be added to company's general corporate funds in first instance, and will be used, as conditions permit, for purchase of additional inventory, installation of new fixtures and modernization of existing equipment. **Business**—Operates a department store.

National Bellas Hess, Inc., N. Kansas City, Mo. (5/11)
April 22 filed 397,644 shares common stock ($1 par). **Underwriters**—Emanuel, Deetjen & Co. **Offering**—Company is offering to holders of common stock the new stock for subscription at rate of one share for each five shares of common held. Price by amendment. **Proceeds**—Will be added to working capital. For details see issue of April 25, p. 2264.

● **National Plumbing Fixture Corp., N. Y. (5/10)**
May 3 (letter of notification) 29,800 shares of 5½% cumulative preferred stock (par $10). Price to public $10 per share. No underwriters. Proceeds will be applied upon the cost of acquisition of the plant of Ellwood Co. (Va.) for the manufacture of cast iron enamelware plumbing fixtures.

Neiman-Marcus Co., Dallas, Texas (5/15)
April 29 filed 25,000 shares of cumulative preferred stock (par $100). **Underwriters**—Lehman Brothers. **Offering**—Price to public by amendment. **Proceeds**—Retirement of $396,800 first mortgage 4% serial bonds at 103; redemption of the 6,198 shares of 5% cumulative preferred stock at $105 per share plus dividends; working capital.

● **Nekoosa-Edwards Paper Co., Port Edwards, Wis.**
May 3 (letter of notification) 3,144 shares common stock (par $25) being offered by John E. Alexander. Price to public $27 per share. **Underwriters** — Loewi & Co. and Schoellkopf, Hutton & Pomeroy, Inc.

New York Stocks, Inc., New York (5/20)
May 1 filed 1,500,000 shares of special stock. **Offering**—At market. **Proceeds**—For investment.

● **Nicaraguan Development Corp., Reno, Nev.**
April 29 (letter of notification) 50,000 shares common (par $1). Price to public 85¢ per share. No underwriting. Corporate purposes.

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.

● **Oklahoma Oil Co., Denver**
May 3 (letter of notification) 480,000 shares common stock, par 5 cents, to be offered by E. R. McElroy. Price to public at the market. No underwriting.

Panhandle Producing & Refining Co., New York
April 29 (letter of notification) 12,000 shares of common stock (par $1). Stock is to be issued to Claude Neon Lights, Inc. in connection with the acquisition from the latter of certain oil and gas leaseholds. Claude Neon Lights, Inc. intends to sell this stock (presently valued at $144,000 or $12 per share) when the shares are listed on the New York Stock Exchange, presumably on the Exchange.

Paulsboro (N. J.) Manufacturing Co. (5/27)
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. (5/16)
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. Rights expire May 1. For details see issue of March 14.

Pennsylvania-Dixie Cement Corp., N. Y. (5/14)
April 25 filed 80,000 shares capital stock (par $7). **Underwriters**—None named. **Offering**—The 80,000 shares are reserved for issue upon the exercise of warrants which were issued to holders of common stock of General Cement Corp. in connection with a merger of that corporation into Pennsylvania-Dixie effective Dec. 21, 1945. The warrants are exercisable on and after June 1, 1946, and on and before May 31, 1949, at $20 per share. For details see issue of May 2.

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.

● **Pilot Silver-Lead Mines, Inc., Wallace, Idaho**
April 25 (letter of notification) 1,000,000 shares for registrant; 50,000 shares by Elmer E. Johnston and 150,000 shares for J. E. Gyde. Price to public 12½ cents per share. **Underwriters**—E. J. Gibson & Co.; Edwin Lavigne & Co.; Ben Redfield, and Pennaluna & Co.

Piper Aircraft Corp., Lock Haven, Pa. (5/15)
May 26 filed 150,000 shares 4½% convertible preferred stock (par $10). **Underwriters**—Hayden, Stone & Co. **Offering**—Price to public by amendment. **Proceeds**—Working capital. For details see issue of May 2.

Piper Aircraft Corp., Lock Haven, Pa. (5/13)
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.

● **Plastic Insulator Co., Inc., Jersey City (5/9)**
May 2 (letter of notification) 99,000 shares common ($1 par). Price to public $3 per share. **Underwriters**—George R. Cooley & Co., Inc.; Mohawk Valley Investing Co., Inc., and Cohu & Torrey. For equipment and corporate purposes.

● **Plastics Materials Corp., Laconia, N. H.**
May 3 (letter of notification) 99,900 shares common, par $1. Price to public $3 per share. **Underwriter**—J. F. Reilly & Co., Inc. To purchase a wood flour mill, inventories, etc.

● **Pressurelube, Inc., New York (5/10)**
May 3 (letter of notification) 52,000 shares of common. Price to the public at market (approximately 4¼-4½). No underwriting. For payment of indebtedness and working capital.

● **Prophet (Fred B.) Co., Detroit**
May 1 (letter of notification) 12,700 shares common (par $1) to be offered for Fred B. Prophet. **Underwriters**—Smith, Hague & Co., and Straus & Blosser. Price to public, 6,450 shares at $7.75 and 6,250 shares at $8 per share.

Public Flyers, Inc., New York (5/22)
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.

Radford (J. M.) Grocery Co., Abilene, Tex. (5/15)
April 29 filed 15,000 shares cumulative preferred stock (par $50). **Underwriters**—Rauscher, Pierce & Co., Inc. **Offering**—Price to public by amendment. **Proceeds**—To finance in part acquisition of the stock of the predecessor company. **Business**—Wholesale grocery company.

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.

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.

● **Schwarz Engineering Co., San Francisco**
April 17 (letter of notification) 150,400 shares of capital stock (par $1) to be offered present stockholders at par. A total of 110,000 rights to buy same class of stock being sold by certain stockholders. Price per share of new stock arising from four rights is $1. **Underwriters** of rights: J. Barth & Co., and Shuman, Agnew & Co., Inc.

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.

● **Silver Circle Mining Co., Spokane**
May 2 (letter of notification) 500,000 shares common, par 10 cents. Price to public 30 cents. The issuer will offer its own securities in State of Washington and Fidelity Investment Co., Wallace, Idaho, will underwrite the securities in Idaho.

Sinclair Oil Corp., New York
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.

Standard Oil Co. (New Jersey) (5/15)
April 29 filed $85,000,000 25-year 2⅜% debentures. **Underwriters**—Morgan Stanley & Co. **Offering**—Price to public by amendment. **Proceeds**—Net proceeds, together with other funds of company, will be applied to the redemption on or about June 14, 1946, of $85,000,000 25-year 3% debentures due June 1, 1961, at 101 and accrued interest.

Steep Rock Iron Mines Ltd., Ont., Can. (5/20)
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.

Super-Cold Corp., Los Angeles, Calif. (5/13)
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**—

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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.

● Thomas Steel Co., Warren, O. (5/21)
May 2 filed 16,428 shares of 4¼% preferred stock (par $100) and 246,420 shares of common (par $1). The shares are issued and are owned by C. G. Thomas, a former President and Chairman of the Board, who owns beneficially approximately 72.8% of the outstanding common and 82% of the outstanding preferred. **Underwriters**—McDonald & Co., Cleveland, O. **Offering**—Price to public by amendment. **Business**—Various steel products.

Trailmobile Co., Cincinnati, O. (5/20)
May 1 filed 60,000 shares of 4¼% cumulative convertible preferred (par $50). **Underwriter**—W. E. Hutton & Co. **Offering**—Price to public by amendment. **Proceeds**—Redemption of $2.25 cumulative preferred stock; acquisition of additional facilities, reduction of bank loans, etc.

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. (jointly). **Offering**—Federal will offer the stock for sale at competitive bidding and price to public will be filed by amendment.

Tyler (C. A.) & Co., Inc., Boston, Mass.
April 22 (letter of notification) 490 shares no par common stock. Price to public $125 per share. **Underwriters**—G. M. Rose & Co. **Proceeds**—For working capital.

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 Grocers Co., Brooklyn (6/1)
April 25 (letter of notification) $300,000 5% debentures dated June 1, 1946; due June 1, 1956. **Offering**—To be offered by company to stockholders and customers; also exchanged for $75,000 6% bonds to be redeemed July 1, 1946. Price, par. **Proceeds**—Proceeds will be used as follows: payment of bonds, $75,000; construction of new building, $150,000; mechanizing warehouse equipment, $25,000; working capital, $50,000.

U. S. Airlines, Inc., St. Petersburg, Fla. (5/20)
April 22 filed 900,000 shares common stock (par $1) and 300,000 stock purchase warrants, of which 150,000 have been issued to Harry R. Playford, President, and 150,000 will be issued to underwriters. **Underwriters**—R. H. Johnson & Co. **Offering**—Price to public $3.25 per share. **Proceeds**—To pay principal and interest on bank loan, to finance purchase of additional aircraft, equipment, etc., and for working capital.

United States Rubber Co., New York
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. Offering temporarily postponed. For details see issue of April 18.

● United Veterans Co-Operative Group, Inc., N. Y.
May 2 (letter of notification) 4,000 shares of common (par $5). Price to public $5 per share. No underwriting. General purposes of the corporation.

Utility Appliance Corp., Los Angeles
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.

Valley View Mines, Inc., Spokane, Wash.
April 17 (letter of notification) 200,000 shares common stock. Price to public 62½¢ per share. **Underwriter**—Standard Securities Corp., Spokane, Wash.

● Verdi Development Co., Carson City
May 6 (letter of notification) 1,000,000 shares (par 10¢). Price to public 5¢ per share. No underwriting.

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.

Walworth Co., N. Y. (5/10)
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.

● Western Kentucky Gas Co., Owensboro
May 6 (letter of notification) 11,320 shares 4.80% cumulative preferred. Price to public $26.50. **Underwriter**—J. J. B. Hilliard & Son.

● Whitedelf Mng. & Devel. Co., Clarks Fork, Ida.
April 29 (letter of notification) 200,000 shares, par 10 cents. Price to the public 50 cents per share. No underwriting.

● Wrisley (Allen B.) Co., Chicago, Ill.
May 6 (letter of notification) 3,000 shares cumulative convertible preferred 4% series ($100 par). Price to public $100. No underwriting.

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.

● York (Pa.) County Gas Co. (5/27)
May 8 filed $1,700,000 first mortgage bonds, due 1976. The issue will be sold at competitive bidding, with the successful bidder fixing the interest rate. **Offering**—Price by amendment. **Proceeds**—Proceeds, together with cash received from sale of $450,000 serial notes to Commercial National Bank of New York, together with proceeds from sale of 3,600 shares of North Penn Gas Co., to Pennsylvania Gas & Electric Co., will be used to redeem $1,019,300 Pennsylvania Gas & Electric Corp. first lien and refunding mortgage, series A, 5½s, due Sept. 1, 1955, at 102%; redeem $1,193,000 Pennsylvania Gas & Electric Corp. first lien and refunding mortgage 5s; pay $100,000 unsecured note to Commercial National Bank of New York; and reimburse York's treasury for expenditures in connection with the financing underwriters. **Business**—The company manufactures gas and distributes it in the city of York, Pa., and surrounding territory.

● Young-Prowse Mining & Chemical Corp., Butte, Mont.
April 29 (letter of notification) 100,000 shares capital stock. Price to public $1 per share. No underwriting. For development.

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

● A. C. F. Brill Motors Co., New York
May 8 reported company may refund in near future its $4,500,000 6% income debentures due Dec. 31, 1969.

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.

● American Bemberg Corp., New York
June 25 stockholders will vote on proposal that present 7% preferred stock be exchanged for new 4½% issue. Alternative plan would be the refunding of the issue through sale of other securities.

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 Broadcasting Co., New York
April 25, E. J. Noble, Chairman, announced company is planning to offer a substantial amount of authorized but unissued common stock to the public and to owners of radio stations affiliated with the network, through an underwriting group headed by Dillon, Read & Co. Inc. Offer is dependent on approval of FCC.

American Gas & Power Co.
April 10 company (name to be changed to Minneapolis Gas Co.), under modified plan approved by SEC, reserves right to make public offering of not in excess of 874,078 shares of new common stock. Probable bidders include White, Weld & Co., W. C. Langley & Co., Otis & Co.

American Rolling Mill Co., Middletown, Ohio
April 19 company reports that under a refinancing plan now being negotiated, it is expected that outstanding $15,500,000 term bank loans will be retired in near future. Probable underwriters include W. E. Hutton & Co.; Smith, Barney & Co., and The First Boston Corp.

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. Probable bidders include Dillon, Read & Co. Inc.; The First Boston Corp., and Blyth & Co., Inc.

Artloom Corp., Philadelphia
July 16 stockholders will vote on increasing common stock by 300,000 shares, the new stock to be offered stockholders at $10 per share. Proceeds for expansion and working capital. Probable underwriters, Lehman Brothers.

● Atlantic Refining Co., Philadelphia
May 7 stockholders approved proposal to increase the company's indebtedness from time to time by additional amounts not in excess of $50,000,000 in aggregate. The purpose of the plan, it was said, is to place the company in a position to fund bank loans, add to working capital and to provide funds for capital expenditures. Probable underwriters include Smith, Barney & Co.

Atlas Imperial Diesel Engine Co., Oakdale, Calif.
April 19 stockholders voted to split common stock 2 for 1 and create 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.

● Baltimore & Ohio RR.
May 8 it was reported a refunding operation which may eventually involve more than $400,000,000 in obligations is under consideration. Probable underwriters include Kuhn, Loeb & Co., and Alex. Brown & Sons.

Bangor & Aroostook RR., Bangor, Me.
April 16 stockholders authorized new mortgage. Company contemplates refinancing one-third of outstanding funded debt (Dec. 31, 1945, $12,665,000) through sale of equal amount of bonds under new mortgage, through competitive bidding. Probable bidders include Harriman, Ripley & Co., Inc.; Lee Higginson Corp., and Halsey, Stuart & Co. Inc.

Beatrice Creamery Co., Chicago
May 1 company stated early registration of 59,862 shares of cumulative convertible preferred stock (par $100) expected. The new issue, to be voted on by stockholders June 1, will be offered in exchange for $4.25 preferred. Glore, Forgan & Co. will be underwriters.

Bridgeport (Conn.) Brass Co.
April 23 stockholders voted to issue an additional 450,000 shares of common stock when and if new capital is needed. Probable underwriters, Hincks Bro. & Co.; Stone & Webster Securities Corp.; Hornblower & Weeks.

● Bruce (E. L.) Co., Memphis
May 27 stockholders will vote on authorizing a new issue of 19,000 shares of 3¾% preferred stock (par $100). Proceeds would be used to refund 15,000 shares of 7% and 3½% issues now outstanding and for corporate purposes. Shell Pension Fund and Shell Provident Fund have agreed to purchase the issue.

(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 de-

bentures to retire existing indebtedness. Probable underwriters are Blyth & Co., Inc., and Carl M. Loeb, Rhodes & Co.

California Electric Power Co., Riverside, Calif.
The sale of $16,000,000 first mortgage bonds and 170,000 shares of common stock is expected about May 30. Probable bidders include Dillon, Read & Co. Inc. (bonds); The First Boston Corp.; Halsey, Stuart & Co., Inc. (bonds); Kidder, Peabody & Co.; Stone & Webster Securities Corp. (stock).

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).

Chicago Milwaukee St. Paul & Pacific RR.
Issuance by the road of $58,900,000 lower-coupon first mortgage bonds, proceeds from the sale of which would be used to redeem first mortgage 4% bonds, 1994, now is expected to be delayed until all litigation on the reorganization is completed. Earlier plans were for the retirement of the bonds July 1. Three investment banking groups were set up to enter competition for any new offering, viz.: Kuhn, Loeb & Co.; Mellon Securities Corp., and Halsey, Stuart & Co., Inc.

Columbia Gas & Electric Corp., New York
April 12 it was stated that in final step in recapitalization program, corporation is expected to sell approximately $100,000,000 debentures to pay off balance of senior securities and provide funds for property expansion. Probable bidders include: Glore, Forgan & Co.; W. E. Hutton & Co., and Halsey, Stuart & Co., Inc.

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.

• **Empire District Electric Co., Joplin, Mo.**
May 3 company filed application with the Arkansas P. S. Commission for authority to issue $2,000,000 2⅞% first mortgage bonds due in 1976. Proceeds would be used for additions and improvements to the company's properties in Missouri, Arkansas, Kansas and Oklahoma. Probable bidders include The First Boston Corp.; Halsey, Stuart & Co. Inc.; Shields & Co. and Lehman Brothers.

• **Fleetwood-Airflow, Inc., Wilkes-Barre, Pa.**
May 8 reported that company would shortly file letter of notification for an issue of 91,767 shares of common stock (par 50c) to be publicly offered at $3 per share. Underwriters will be Amos Treat & Co., New York. Company manufactures a line of refrigeration products for retail stores and the patented airflow beer dispenser equipment.

• **General Cable Corp., New York**
May 4 reported stockholders will vote June 10 on changes in the certificate of incorporation necessary to effect a proposed recapitalization in which present preferred stock and dividend arrears would be exchanged for two new classes of preferred and a cash adjustment. Under the plan holders of each outstanding share of 7% preferred would receive one share of new 4% 1st preferred ($100 par), one share of new ($50 par) 4% convertible second preferred, and $12.50 a share in cash, plus accrued dividends from May 1 to the exchange date. The exchange offer would be underwritten and the unexchanged shares of old stock would be called for redemption Aug. 1 at $110 a share, plus accrued dividends of $52.50 a share and the current dividends due Aug. 1. Probable underwriter, Dillon, Read & Co. Inc.

General Telephone Corp., New York
April 17 stockholders approved amendment to certificate of incorporation modifying restrictions against incurring debt for capital purposes without specific stockholders' approval. Stockholders also approved amendment to authorize 175,000 additional preferred shares. Probable bidders include Paine, Webber, Jackson & Curtis.

• **Gimbel Brothers, Inc., New York City**
May 14 stockholders will vote on increasing authorized common from 1,959,775 shares to 4,000,000 shares (par $5). No immediate issuance of the additional shares is contemplated, it is said, but authorization is asked in order that shares may be available for needs when they arise. Probable underwriters, Goldman, Sachs & Co., and Lehman Brothers.

• **Graef & Schmidt, Inc., New York**
The Alien Property Custodian invites bids for the purchase, as a whole, of 100 shares of common stock (no par) constituting all the issued and outstanding common stock. Company presently is engaged in the manufacture and sale of a line of scissors and shears. All bids must be presented at the Office of Alien Property Custodian, 120 Broadway, New York 5, N. Y., on or before 12 noon (EDST) June 7, 1946.

• **Gulf States Utilities Co., Beaumont, Texas**
May 2 it was reported company has under consideration the refunding of its outstanding $27,300,000 3½% bonds due 1969. Probable bidders include Stone & Webster Securities Corp. and Halsey, Stuart & Co. Inc.

• **Huyler's, New York City**
May 5 reported that stockholders' meeting will be convened shortly for purpose of increasing authorized common from 600,000 to 700,000 shares; to authorize the sale of the 100,000 shares plus 41,530 now unissued (total 141,530) at not less than $10 per share. Proceeds would be used to redeem loan, preferred stock and for working capital.

• **Illinois Central RR.**
May 3 it was announced that in connection with proposed bond refunding plan company proposes to sell $35,000,000 first and refunding mortgage bonds Series B. Proceeds would be used to retire outstanding refunding mortgage bonds to be called for payment Nov. 1 at 107½. Probable bidders: Kuhn, Loeb & Co.

Illinois Power Co., Decatur, Ill.
April 11 company filed plan with SEC to simplify capital structure. Plan contemplates the conversion of 5% cumulative preferred stock (par $50) into common stock on basis of two common shares for one preferred. Company states underwriting is available for this conversion program and will cover a 30-day commitment to purchase enough additional common to redeem any preferred not tendered for conversion. Company proposes issuance of 200,000 shares of new preferred (par $50) and such additional common shares to provide cash to pay dividend arrears certificates ($11,596,680). Probable bidders include Merrill Lynch, Pierce, Fenner & Beane; Otis & Co., and the First Boston Corp.

Indianapolis (Ind.) Power & Light Co.
April 24 it was reported that company probably will replace its $32,000,000 first 3¼s due May 1, 1970, with new lower-cost securities. Probable underwriters include Lehman Brothers; Blyth & Co., Inc., and Halsey, Stuart & Co. Inc.

• **Indianapolis (Ind.) Water Co.**
May 6 company filed a petition with the Indiana State P. S. Commission asking permission to sell $14,725,000 bonds bearing 2¾% interest and due in 1976 at not less than 101½. Proceeds will be used to redeem $14,425,000 of 3½% bonds callable at 104 and due in 1966. Probable underwriters include Morgan Stanley & Co., and Harriman, Ripley & Co.

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 Telephone & Telegraph Corp., N.Y.**
May 8 it was reported that consideration has been given to one or more refunding operations for the liquidation of all or part of the outstanding debenture bonds, which at Dec. 31, 1945, stood at $28,701,000 25-year 4½s and $43,530,000 25-year 5s. Probable underwriters include Morgan Stanley & Co., and Smith, Barney & Co.

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. Probable bidders, Halsey, Stuart & Co., Kidder, Peabody & Co., and Kuhn, Loeb & Co.

Kurman Electronic Corp.
Company, manufacturer of various electrical relays and clocks, is reported planning the sale of 90,000 shares of common stock through B. G. Cantor & Co. An additional 7,500 shares would be sold for account of N. S. Kurman, President. Price $3 per share.

• **Mead Corp., Chillicothe, Ohio**
June 9 stockholders will vote on authorizing refunding of $8,000,000 privately-held first mortgage 3⅛% bonds due 1960 and refinancing the outstanding 30,755 (no par) $6 cumulative preferred stock Series A and 49,079 (no par) $5.50 cumulative preferred stock. The refinancing would be accomplished through the sale of new bonds and preferred stock carrying lower dividend rate. The proposed financing would also provide for $7,000,000 new capital for expansion purposes. Probable underwriters include Drexel & Co., and Lehman Brothers.

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.

• **Michigan-Wisconsin Pipe Line Co.**
May 3 it was reported that Michigan Consolidated Gas Co., through the purchase of $17,000,000 in common stock, would acquire full control of the Michigan-Wisconsin Pipe Line Co. Sale of the stock to Michigan Consolidated would be a part of the initial financing of the new company, which proposes to build a $71,000,000 pipe line to bring natural gas from Texas to Midwest States. Michigan-Wisconsin's proposal also contemplates issuance of $6,000,000 in 2% 5-year serial notes and of $34,000,000 in 3¼% 20-year first mortgage bonds to complete the "initial financing." The plan has yet to be presented to the SEC. Probable underwriters of the bonds include Dillon, Read & Co. Inc.; Glore, Forgan & Co., and White, Weld & Co.

• **Milwaukee Gas Light Co.**
May 6 it was reported company is considering refunding its $3,000,000 4½% bonds due 1967 and the refunding or retiring of the $2,000,000 outstanding 7% preferred stock. Refunding step would strengthen company's capital structure as a forerunner to distribution of its stock by the American Light & Traction Co., parent, to enable latter to meet Utility Holding Company Act requirements. Probable bidders include Otis & Co., and Glore, Forgan & Co.

• **Missouri Power & Light Co., Jefferson City, Mo.**
May 3 company, a subsidiary of North American Light & Power Co., requested the SEC for authority for a proposed refinancing program. Missouri proposes to redeem and retire all of its 50,000 shares of $6 preferred stock and to issue and sell for cash 40,000 shares of new ($100 par) preferred stock; reclassify and convert its 75,000 shares of existing common stock (no par) into 165,000 shares of new common ($20 par) and retire all and refund part of its outstanding debt by redeeming its $9,000,000 aggregate principal amount of first mortgage bonds, 3¾% series due 1966, and issuing and selling $7,500,000 new first-mortgage bonds, due 1976 at competitive bidding. Probable bidders include Halsey, Stuart & Co. Inc. (bonds only); The First Boston Corp.; Blyth & Co., Inc.; Coffin & Burr, Inc., and Kidder, Peabody & Co.

• **Montgomery Ward & Co., Chicago**
Sewell L. Avery, Chairman, following the annual stockholders' meeting, indicated that rights may shortly be offered to shareholders to raise funds to finance an expanded volume of business. Probable underwriters if stock is offered include Glore, Forgan & Co., and Shields & Co.

Nashville Chattanooga & St. Louis Ry.
April 24 company has under consideration plans for sale on May 9 of $15,000,000 new bonds. The new issue will be designed to provide funds for retirement of the outstanding first 4s, due 1978. Probable bidders include Halsey, Stuart & Co.; Morgan Stanley & Co., and The First Boston Corp. **Bids Invited**—Bids for purchase of the bonds will be received at company's office, 71 Broadway, New York City, until noon (EDST) May 9.

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).

New York Dock Co., N. Y.
April 24 reported negotiations will be resumed within month for refunding of $10,000,000 first mortgage 4s, due 1951. New issue will probably run 25 years. Probable underwriters, Hayden, Stone & Co., and Halsey, Stuart & Co., Inc.

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.
(Continued on page 2554)

(Continued from page 2553)
of collateral trust bonds. Prospective bidder, Morgan Stanley & Co., Halsey, Stuart & Co. and Kidder, Peabody & Co.

Northern States Power Co. of Minnesota
April 23 Lehman Brothers; Riter & Co.; Lehman Corp., and Overseas Securities Co., Inc., submitted to SEC a draft of a proposed reorganization plan for Northern States Power Co. (Del.) which provides for a "stock and option to sell for cash" method of distribution. Plan provides for reclassification of common of Northern States Power of Minnesota, operating company, into 8,216,228 shares of common, all of which will be owned by the Delaware parent and distributed to the latter's preferred and common stockholders. The stock to be distributed would be equal to the call price of the preferred stock and a bonus. The offering price of the Minnesota common would be determined by negotiation between representatives of the underwriting syndicate and of present holders of the Delaware company's class A and B common stocks. Probable bidders include Merrill Lynch, Pierce, Fenner & Beane; Paine, Webber, Jackson & Curtis, and Blyth & 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. Hearing on application before SEC will be held June 5. Probable bidders include First Boston Corp.; Glore, Forgan & Co.; White, Weld & Co.-Shields & Co. (jointly); Morgan Stanley & Co., and Stone & Webster Securities Corp.

Oklahoma Gas & Electric Co., Oklahoma City
Company contemplates at same time Standard Gas & Electric Co. sells its holding of common stock (in accordance with SEC regulations) to sell approximately 140,000 shares of new common stock, proceeds of which will be used to reimburse treasury and retire bank loan used in redeeming the 7% preferred stock. Probable bidders will include Merrill Lynch, Pierce, Fenner & Beane; The First Boston Corp., and White, Weld & Co.

Panhandle Producing & Refining Co.
April 24, annual report reveals company is contemplating an offering to stockholders of authorized but unissued common stock before the close of 1946 to finance projects in Latin America.

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. Probable bidders include Mellon Securities Corp., Smith, Barney & Co., Kidder, Peabody & Co., and Merrill Lynch, Pierce, Fenner & Beane.

● **Pennsylvania Gas & Electric Corp., York, Pa.**
May 7 corporation applied to the SEC for permission to sell all of the common stock of the Petersburg & Hopewell Gas Co. (a subsidiary) consisting of 55,000 shares (par $10) to Scott, Horner & Mason, Inc., of Lynchburg, Va., for $600,000, plus closing adjustments.

Pere Marquette Ry.
April 24, W. H. Wenneman stated that refinancing of company's $59,749,000 first mortgage 3⅜s will be undertaken following consummation of merger of road with Chesapeake & Ohio Ry. Probable underwriters include Halsey, Stuart & Co., Inc., and Blyth & Co., Inc.

Philadelphia (Pa.) Electric Power Co.
April 19 company filed with SEC a plan to simplify capital structure which embraces among others the proposed sale through competitive bidding of $30,000,000 first mortgage bonds due 1975; $12,000,000 of serial notes to be sold to banks, insurance companies and institutions; issue of 242,000 common shares in exchange for demand notes of Philadelphia Electric Co., parent, and sell 120,000 common shares to Philadelphia Electric Co. Probable bidders will include Halsey, Stuart & Co., Inc.; Drexel & Co.; Kidder, Peabody & Co.; Shields & Co., and White, Weld & Co. (jointly); Morgan Stanley & Co.

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. Probable underwriters, Blair & Co.

● **Radio-Keith-Orpheum Corp., New York**
May 4 L. Boyd Hatch, Executive Vice-President of Atlas Corp., stated that company may shortly dispose of all or part of its holding of R-K-O common stock; which amounted to 1,329,020 shares (43%) Dec. 31, 1945, with a total market value as of that date of $21,762,702. Sale may be made by June 30 or some time in the fall. Probable underwriters if stock is sold, Dillon, Read & Co. Inc.

Rochester (N. Y.) Telephone Corp.
The New York Public Service Commission has authorized the sale to Halsey, Stuart & Co., Inc., of $6,238,000 35-year 2½% first mortgage bonds at a premium of $32,000, under agreement that corporation shall offer bonds at competitive sale within 90 days, and if better offer is received, it shall reacquire and dispose of the bonds to the best bidder. Previously the Commission denied corporation's petition to sell the issue privately.

● **Royal Dutch Airlines, Amsterdam**
May 3 press dispatch from Amsterdam stated that K. L. M. (Royal Dutch Airlines) will shortly conclude a $10,000,000 loan with an American bankers' syndicate.

St. Louis (Mo.) Public Service Co.
April 19 company has petitioned the Missouri Public Service Commission to simplify its financial structure, including reduction in interest and sinking fund changes. Company proposes to retire current funded debt ($11,640,683) and to issue up to $10,000,000 new bonds, but limited originally to $6,000,000. Probable bidders include White, Weld & Co.; Blyth & Co., Inc., and First Boston Corp.

● **Seaboard Corp., Harrisburg, Pa.**
April 30 John Stapf, President, announced that proposals and plans for the refinancing of corporation and affiliated interests will be received until June 1, 1946, by the company. Operations consist mainly of owning and managing 22 water utilities located in several states. Interested firms are invited to communicate with the general office, N. Sixth St., Harrisburg, Pa.

● **Seaboard Fruit Co., Inc., New York**
It is understood that company will file a letter of notification in the near future covering an issue of convertible Class A stock and common stock to be offered in units of one share of each, the aggregate to be in the neighborhood of $295,000. It is expected that Hill, Thompson & Co., will be underwriters. Company, which is in business for about nine years, is engaged in the exporting of fruit, meats, vegetables, etc., to Latin American countries.

● **Socony Vacuum Oil Co., Inc.**
May 7 reported company contemplating refunding its $50,000,000 outstanding 3%, sinking fund debentures due July 1, 1964, and possibly a part of the $50,000,000 serial notes now held by banks. It is believed new issue would carry a coupon rate of 2⅜-2½% and would mature in 25 years. Probable underwriter, Morgan Stanley & Co.

Southern Co., New York
The Southern Co. (to be successor to Commonwealth & Southern Corp.) proposes to sell for cash (when Commonwealth's recapitalization plan becomes effective) sufficient common stock to realize $10,000,000, to be invested in Southern Co.'s subsidiaries and new construction.

Southern Natural Gas Co.
Company has under consideration a plan to issue approximately $18,000,000 bonds due 1965 to refund outstanding bonds and serial notes. Probable underwriters included Halsey, Stuart & Co., Inc.; Kidder, Peabody & Co. and Blyth & Co., Inc. (jointly).

Spiegel, Inc., New York
April 25 stockholders voted to increase common stock from 1,750,000 to 3,000,000 shares (par $2) and granted an option to employees and officials to purchase an additional 30,000 shares. The additional shares would be used to increase working capital when necessary. Probable underwriter, Harriman Ripley & Co.

● **Standard Gas & Electric Co.**
May 15 hearing will be held before SEC on application of Standard Power & Light Corp. for authority to sell from time to time all or any part of 1,600,000 common shares of S. G. & E., now owned by it, such sales to be either private sales for investment or to be made in the open or counter market.

Sunray Oil Corp.
May 1 proposed merger of Sunray and Transwestern Oil Co. announced, subject to stockholders' approval. Public distribution of securities of Sunray is proposed with Eastman, Dillon & Co. principal underwriters.

● **Sutherland Paper Co., Kalamazoo, Mich.**
May 6 it was reported company had under consideration some new financing. Probable underwriter, Harris, Hall & Co. (Inc.).

Textron, Inc.
April 30 it was stated that a plan was under way to finance a new company to acquire the assets of Nashua Manufacturing Co., 95% of the common stock of which is owned by Textron. Probable underwriter, Blair & Co.

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 Drug, Inc.**
May 4 it was stated that public offering of between 600,000 and 1,000,000 shares of additional capital stock now being negotiated with underwriters. The actual size of the offering will depend on progress of financing discussions and prevailing business conditions. Stockholders will vote May 14 on proposal to reduce the par value of the capital stock from $5 to $2.50 a share, and increase authorized capital stock from 1,400,560 shares to 5,000,000 shares. Stockholders will also be asked to approve a two-for-one split of the present capital stock. A proposal to change the name of the company to United-Rexall Drug, Inc., will be voted on at the same meeting. Probable underwriter, Smith, Barney & Co.

United Printers & Publishers Inc., Joliet, Ill.
April 10 stockholders voted to increase authorized common stock (par $1) from 400,000 shares to 1,000,000 shares. Company contemplates sale of 165,656 additional shares, proceeds of which will be used to redeem at $35 a share outstanding 100,000 $2 preference stock. Probable underwriter A. C. Allyn & Co.

United States Radiator Corp., Detroit
April 24 annual meeting adjourned to May 15 when new plan of recapitalization and refinancing should be ready for submission to stockholders. Previous plan rejected by stockholders March 1 last. Probable underwriters, White, Weld & Co.

● **Vacuum Concrete Inc., New York**
May 3 reported stockholders approved increase in authorized capital from 310,000 shares (par $1) to 350,000 shares (par $1). Additional stock will be used to obtain working capital and for purchase of assets of Vacuum Concrete Corp., parent, which it is planned to liquidate. Probable underwri.er, Hanson & Hanson.

Wabash Railway
May 1 it was reported that company may possibly refund its $47,000,000 first mortgage 3¼s of 1971 with a lower coupon issue. Possible bidders include Halsey, Stuart & Co., Inc., and Kuhn, Loeb & Co.

Western Maryland Ry., Baltimore
Company will receive bids up to 10 a.m. (EST) May 14, at its office, 506 Standard Oil Bldg., Baltimore, Md., for the purchase of $2,000,000 equipment trust certificates series J, to be dated June 15, 1946 and payable $200,000 annually June 15, 1947 to 1956. Probable bidders include Halsey, Stuart & Co., Inc., and Salomon Brothers & Hutzler.

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.

● **Willys-Overland Motors, Inc.**
May 6 it was reported that company had under contemplation a financing program to provide it with funds for post-war expansion of production. Stockholders, it is said, will be invited to subscribe either to a new preferred stock issue or to additional common shares, possibly on a 1-for-8 basis, or for bo.h. Only a preferred offering will be underwritten.

Wisconsin Power & Light Co., Madison, Wis.
April 23 under dissolution plan of North West Utilities Co. filed with SEC, Middle West Corp. (parent), proposes to invite bids for sale of not more than 32,000 shares of common stock of Wisconsin, as would not be distributed to stockholders of Middle West. Probable bidders include Merrill Lynch, Pierce, Fenner & Beane, White, Weld & Co., Glore, Forgan & Co., and The Wisconsin 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, Peabody & Co. (jointly).

Our Reporter's Report

The decline in corporate bonds, touched off by the sharp fall in long-term Treasuries over the last several weeks, appears to have been checked. But the market displays little in the way of resiliency, particularly in the case of some of the more recent of the new issues.

True, the Treasury list is only slightly above its lows for the recent drop and since government securities provide the base of the money market this probably explains the lack of substantial recovery in the corporate list.

Aside from such influence, however, the fact remains that institutional investors have been openly hostile to the sharp and progressive paring of rates of return on corporate bonds. And evidently their "sit-down" has not been entirely ended by the recent upward revision in rates.

Portfolio buyers for these institutions are, as might be easily understood by reason of the nature of their jobs, extremely market wise. Realizing that portions of recent issues are still available on the shelves of syndicates and their dealer groups, they are in no rush to purchase.

In short there is no disposition in such quarters to chance bidding the market up against themselves. Their program seems rather to be one of picking up bonds on favorable opportunities, that is, when the volume offerings warrant such action.

There is no hesitation, on the other hand, in picking up new issues which they consider properly priced. The quick sale of Texas & New Orleans 3¼s and 3⅜s early this week proved a case in point. Priced to offer .05 to .25 yield points better than comparable issues, this undertaking proved a fast mover.

Work For Selling Staffs

Underwriting firms taking on several of the new stock selling and exchange undertakings projected by several firms, notably public utilities, are viewed as having assured steady work for their selling organizations for a while ahead.

Dealers participating in several such projects do not look for any quick turnover in such cases. As one of their number put it, "this kind of operation gives us something to work on."

Two such undertakings were developed on a new method of competitive bidding, with the companies fixing the amount of money sought, and asking the bankers to name the smallest number of shares for which they would provide the funds.

In the cases of both Public Service Co. of New Hampshire and Central Maine Power Co., financing on this basis of competition brought out a surprising run of bids. The new Hampshire utility seeking $5,000,000 had a best bid of 133,142 shares. In the case of the Maine company, seeking $10,000,000, the award was made to bankers offering to take 373,832 shares of common stock.

Utilities Vs Rails

Under recent strained market conditions, new issues of public utility companies appear to have turned in a distinctly better performance than those of railroads brought out in the last few months.

Almost without exception the utilities involved have held well above their offering prices while in the case of the railroads the exact reverse has been the case.

Recent Issues Lag

The market's action has not helped the situation in the case of recent offerings such as Scranton Spring Brook Water Co.'s 2⅞s or Utah Power & Light Co.'s 2¾s.

Or perhaps it may be the other way around, that is, that the lag in the distribution of these issues has been weighing on the seasoned market.

At any rate indications are that sizeable amounts of both issues are still available though subscription books have been open for a week or so. Feeling is that inquiry will improve as sentiment in the market place becomes more confident.

Illinois Central Refunders

Illinois Central has embarked on a refinancing program involving $84,443,000 of new bonds, but if holders of certain of its own and subsidiary obligations accept exchange offers only about $35,000,000 of the bonds will be publicly offered.

The company plans sale of that amount of new series B bonds to finance redemption of 4 and 5% refunding bonds due in 1955. It plans to offer $49,443,000 of series A, 3⅛s, in exchange for 14 issues of its own and Chicago & St. Louis & New Orleans, which it wholly-owns.

Davis Re-Nominated To Head Chicago Exch.

CHICAGO, ILL. — Ralph W. Davis, partner of Paul H. Davis & Co. was renominated as Chairman of the Board of Governors of The Chicago Stock Exchange, it was announced by Emmet G. Barker, Chairman of the 1946 Nominating Committee which filed its report of nominees of all offices to be filled at the annual election to be held June 3, 1946.

The following were nominated to serve three years as members of the Board of Governors:

George E. Booth, Lamson Bros. & Co.; Patrick F. Buckley, Harris, Upham & Co.; Sidney L. Castle, Carter H. Harrison & Co.; Francis F. Patton, A. G. Becker & Co.; Frederick J. Stannard, Barret Wendell, Lee Higginson Corp.; Hugh H. Wilson; Edwin T. Wood.

T. Clifford Rodman, partner of Shields & Co., was nominated for Chairman of the 1947 Nominating Committee, with the following other members:

Thomas E. Hosty, Sincere & Co.; Irving E. Meyerhoff, Irving E. Meyerhoff & Co.; George F. Noyes, The Illinois Co.; Arthur R. Thompson.

The Nominating Committee which presented the present report consists of:

Emmet G. Barker, Chairman; William T. Bacon, Bacon, Whipple & Co.; Ralph Chapman, Farwell, Chapman & Co.; John C. Stewart, and Alfred E. Turner.

Reynolds & Co. Offers Firth Carpet Common

An underwriting group headed by Reynolds & Co. on May 8 publicly offered 125,000 shares of common stock of the Firth Carpet Co., at $20 per share. Of the total, 33,436 shares are being sold by the company, and the balance for the account of certain stockholders.

The proceeds to be received by the company from the sale of the stock will be added to general funds and will be used to finance inventories, accounts receivable and otherwise as general working capital. These net proceeds will replace in part funds expended in retiring $750,000 aggregate principal amount of the company's 2¼% promissory notes.

Charmley & Siebert With B. C. Christopher

(Special to THE FINANCIAL CHRONICLE)

KANSAS CITY, MO.—John A. Charmley and Alvin Siebert have become associated with B. C. Christopher & Co., Board of Trade Building. Mr. Charmley was formerly with the U. S. Army and prior thereto was manager of the real estate department for W. K. Archer & Co.

Martin Guest of Courts

ATLANTA, GA.—William McChesney Martin, Jr., President and Chairman of the Board of the Export-Import Bank of the United States, was in Atlanta as guest of Richard W. Courts. Mr. Courts is senior partner of Courts & Company, 11 Marietta Street, N. W., members of the New York Stock Exchange.

Frederick D. Linehan Opening Own Office

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS.—Frederick D. Linehan is engaging in the securities business from offices at 10 Post Office Square. He was formerly Vice-President of F. R. Chatfield & Co., of Springfield, Mass.

DIVIDEND NOTICES

AMERICAN GAS AND ELECTRIC COMPANY

Preferred Stock Dividend

• THE regular quarterly dividend of One Dollar Eighteen and Three-quarter Cents ($1.18¾) per share on the 4¾% cumulative Preferred capital stock of the company issued and outstanding in the hands of the public has been declared out of the surplus net earnings of the company for the quarter ending June 30, 1946, payable July 1, 1946, to holders of such stock of record on the books of the company at the close of business June 4, 1946.

Common Stock Dividend

• THE regular quarterly dividend of Forty Cents (40c) per share on the Common capital stock of the company issued and outstanding in the hands of the public has been declared out of the surplus net earnings of the company for the quarter ending June 30, 1946, payable June 15, 1946, to holders of such stock of record on the books of the company at the close of business May 15, 1946.

H. D. ANDERSON, Secretary.
May 8, 1946.

Southern Railway Company

DIVIDEND NOTICE

New York, April 23, 1946.

A regular quarterly dividend of Seventy-five Cents (75c) per share on 1,298,200 shares of Common Stock without par value of Southern Railway Company, has today been declared out of the surplus of net profits of the Company for the fiscal year ended December 31, 1945, payable on Saturday, June 15, 1946, to stockholders of record at the close of business Wednesday, May 15, 1946.

Checks in payment of this dividend will be mailed to all stockholders of record at their addresses as they appear on the books of the Company unless otherwise instructed in writing.

J. J. MAHER, Secretary.

PLYMOUTH DODGE **Chrysler Corporation** DE SOTO CHRYSLER

YOU GET THE GOOD THINGS FIRST FROM CHRYSLER CORPORATION

DIVIDEND ON COMMON STOCK

The directors of Chrysler Corporation have declared a dividend of seventy-five cents ($.75) per share on the outstanding common stock, payable June 14, 1946, to stockholders of record at the close of business May 18, 1946.

B. E. HUTCHINSON
Chairman, Finance Committee

Borden's

DIVIDEND No. 145

An interim dividend of fifty cents (50¢) per share has been declared on the capital stock of *The Borden Company*, payable June 1, 1946, to stockholders of record at the close of business May 11, 1946.

E. L. NOETZEL
Treasurer
April 30, 1946

THE BUCKEYE PIPE LINE COMPANY

30 Broad Street

New York, N. Y., April 29, 1946

The Board of Directors of this Company has this day declared a dividend of Twenty (20) Cents per share on the outstanding capital stock, payable June 15, 1946 to shareholders of record at the close of business May 17, 1946.

C. O. BELL, *Secretary.*

DIVIDEND NOTICES

Imperial Oil Limited
Toronto 1, Ontario

NOTICE TO SHAREHOLDERS AND THE HOLDERS OF SHARE WARRANTS

NOTICE is hereby given that a dividend of 25 cents per share in Canadian currency has been declared, and that the same will be payable on or after the 1st day of June, 1946, in respect of the shares specified in any Bearer Share Warrants of the Company of the 1929 issue upon presentation and delivery of coupons No. 65 at:

THE ROYAL BANK OF CANADA
King and Church Streets Branch
Toronto 1, Canada.

The payment to Shareholders of record at the close of business on the 17th day of May, 1946, and whose shares are represented by Registered Certificates of the 1929 issue, will be made by cheque, mailed from the offices of the Company on the 31st day of May, 1946.

The Transfer books will be closed from the 18th day of May to the 31st day of May, 1946, inclusive and no Bearer Share Warrants will be converted into other denominations of Share Warrants during that period.

The Income Tax Act of the Dominion of Canada provides that a tax of 15% shall be imposed and deducted at the source on all dividends payable by Canadian debtors to non-residents of Canada. The tax will be deducted from all dividend cheques mailed to non-resident shareholders and the Company's Bankers will deduct the tax when paying coupons to or for accounts of non-resident shareholders. Ownership Certificates must accompany all dividend coupons presented for payment by residents of Canada.

Shareholders resident in the United States are advised that a credit for the Canadian tax withheld at source is allowable against the tax shown on their United States Federal Income Tax return. In order to claim such credit the United States tax authorities require evidence of the deduction of said tax, for which purpose Ownership Certificates (Form No. 601) must be completed in duplicate and the Bank cashing the coupons will endorse both copies with a Certificate relative to the deduction and payment of the tax and return one Certificate to the Shareholder. If forms No. 601 are not available at local United States banks, they can be secured from the Company's office or The Royal Bank of Canada, Toronto.

Subject to Canadian regulations affecting enemy aliens, non-residents of Canada may convert this dividend at current Canadian Foreign Exchange Control rates into U. S. Currency or such other foreign currencies as are permitted by the general regulations of the Canadian Foreign Exchange Control Board. Such conversion can be effected only through an Authorized Dealer, i.e., a Canadian branch of any Canadian chartered bank. The Agency of The Royal Bank of Canada, 68 William Street, New York City, is prepared to accept dividend cheques or coupons for collection through an Authorized Dealer and conversion into any permitted foreign currency.

The Secretary will on request and when available forward to the holder of any Bearer Share Warrant of the Company a copy of the Company's annual report for the fiscal year 1945.

By order of the Board,
COLIN D. CRICHTON, General Secretary.

56 Church Street,
Toronto 1, Ontario.
6th May, 1946.

DIVIDEND NOTICE

NEW YORK STOCKS, INC.

The following distributions have been declared on the Special Stock of the Company, payable May 25, 1946 to stockholders of record as of the close of business May 4, 1946.

Agricultural Series	$.07
Alcohol & Dist. Series	.10
Automobile Series	.04
Aviation Series	.12
Bank Stock Series	.08
Building Supply Series	.02
Business Equip. Series	.09
Chemical Series	.03
Electrical Equip. Series	.07
Food Series	.10
Government Bonds Series	.09
Insurance Stock Series	.09
Machinery Series	.06
Merchandising Series	.07
Metals Series	.05
Oil Series	.08
Public Utility Series	.05
Railroad Series	.07
Railroad Equip. Series	.08
Steel Series	.04
Tobacco Series	.10
Diversified Investment Fund	.20*
Diversified Speculative Shares	.04

*Includes $.05 from Securities profits.

HUGH W. LONG and COMPANY
Incorporated
National Distributors
48 Wall Street New York 5, N. Y.

EATON MANUFACTURING COMPANY
Cleveland, Ohio

DIVIDEND NO. 85

The Board of Directors of Eaton Manufacturing Company has declared a dividend of Seventy-five Cents (75c) per share on the outstanding common stock of the Company, payable May 25, 1946, to shareholders of record at the close of business May 7, 1946.

H. C. STUESSY
Secretary & Treasurer
April 26, 1946

Outline Attractions for Bond Club Field Day

Limbert Names Committees

Members of the Bond Club of New York are receiving a pictorial program of events to take place at the Field Day of the Bond Club at Sleepy Hollow Country Club, Scarborough, N.Y., on Friday, May 24. Encompassing in cartoons all the activities of the ticker-weary Wall Streeters, from golf and tennis to a spectator's role at a beauty contest featuring 12 pulchritudinous Powers models, the program gives an indication of the diversions in store for bond men at their first Field Day in five years. Additional attractions include a softball game with Mexican offers for the stars, horseshoe pitching, the Bond Club Stock Exchange, and the 1946 edition of The Bawl Street Journal.

Lee M. Limbert

Lee M. Limbert, Blyth & Co., Inc., President of the Bond Club, announced that the following committees would guide the Field Day activities under the co-chairmanship of F. Kenneth Stephenson, Goldman Sachs & Co., and Frank A. Willard, Reynolds & Co.

Attendance Committee: Lee W. Carroll, John B. Carroll & Co., Chairman; John Howard Carlson, Halsey, Stuart & Co.; Harold W. Davis, F. S. Moseley & Co.; Elmer F. Dieckman, Glore, Forgan & Co.; Edwin H. Heminway, Minsch, Monell & Co.; W. H. Reginald Jarvis, McLeod, Young, Weir Corp.; Conrad H. Liebenfrost, Stern, Lauer & Co.; Edward Lloyd, Jr., First Boston Corp., and Richard M. Newell.

Dinner Entertainment Committee: Richard de La Chapelle, Shields & Co., Chairman; Charles L. Morse, Jr., Hemphill, Noyes & Co.

Bawl Street Journal Committee: A. Glen Acheson, Lazard Freres & Co., Chairman; John A. Straley, Hugh W. Long & Co., Editor; Jo M. French, Blyth & Co., Inc., Circulation Manager; Richard de La Chapelle, Shields & Co.; L. Walter Dempsey, B. J. Van Ingen & Co., and George J. Gillies, Mellon Securities Corp.

Golf Committee: Laurence M. Marks, Laurence M. Marks & Co., Chairman; H. Wallace Cohu, Cohu & Torrey; Robert S. Davis, Dominick & Dominick; E. Jansen Hunt, White, Weld & Co.; Richard H. Marshall, Norman P. Smith, Mason B. Starring, Jr., Graham, Parsons & Co., and Henry P. Warren, Jr., W. C. Langley & Co.

Horseshoe Pitching Committee: Robert H. Craft, Guaranty Trust Co., Chairman; F. Seymour Barr, Barr Bros.; Gordon B. Duval, Guaranty Trust Co., and Forrest C. Lattner, Lazard, Freres & Co.

Indoor Sports Committee: Austin Brown, Dean Witter & Co., Chairman; Phillip W. Brown, Jo M. French; Ernest J. Altgelt, Jr., Harris Trust & Savings Bank; William M. Rex, Clark, Dodge & Co.; Raymond D. Stitzer, Equitable Securities Corp., and C. Marshall Wood, Blair & Co.

Luncheon and Dinner Committee: Walter F. Blaine, Goldman, Sachs & Co., Chairman; Durwin D. Algyer; James J. Lee; Sheridan A. Logan, First National Bank; Carl T. Naumburg, Stern, Lauer & Co.; David L. Skinner, Harriman Ripley & Co., and Charles W. Yant, A. C. Allyn & Co.

Stock Exchange Committee: Nathaniel F. Glidden, Glidden, Morris & Co., Chairman; Percy M. Stewart, Kuhn, Loeb & Co.; Louis H. Ingraham, L. H. Ingraham & Co.; C. Russell Lea, Reynolds & Co.; Allen L. Melhado; John Nickerson, John Nickerson & Co.; and Jansen Noyes, Hemphill, Noyes & Co.

Outdoor Entertainment Committee: William G. Laemmel, Chemical Bank & Trust Co., Chairman; W. Manning Barr, Barr Bros.; Walter T. Collins, A. M. Kidder & Co.; Gail Golliday, Stone & Webster Securities Corp.; Charles F. Hazelwood, E. H. Rollins & Son; Wells Laud-Brown, Bankers Trust Co.; Augustus W. Phelps, Phelps, Fenn & Co.; Julius C. Ransom, White, Weld & Co.; David L. Skinner, and Rudolf Smutny, Salomon Bros. & Hutzler.

Softball Committee: Robert L. Hatcher, Jr., Chase National Bank, Chairman; F. Seymour Barr, Barr Bros.; George K. Coggeshall, Schoellkopf, Hutton & Pomeroy; Wendell R. Erickson, Stone & Webster Securities Corp.; George Holzman, Chase National Bank, and William G. Laemmel.

Publicity Committee: William H. Long, Jr., Chairman; Eugene P. Barry, Shields & Co.; Lloyd S. Gilmour, Eastman, Dillon & Co.; Kenneth C. Hogate, and Charles G. Terry.

Tennis Committee: Clifton A. Hipkins, Braun, Bosworth & Co., Chairman; O. S. Brewer; Sumner B. Emerson, Morgan Stanley & Co., and John Nickerson.

Trophies Committee: George J. Leness, Merrill Lynch, Pierce Fenner & Beane, Chairman; James A. Lyles, First Boston Corp.; Clarence E. Goldsmith, White, Weld & Co., and Norman P. Smith.

Russ & Co. Now Corp.

SAN ANTONIO, TEX.—Russ & Co., South Texas Bank Building, is now doing business as a corporation. Officers, all of whom were associated with the predecessor partnership, are A. McClure Russ, President; Charles L. West and Edward D. Muir, Vice-Presidents, and George H. Stolte, Secretary-Treasurer.

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*See under "Securities Now in Registration" on page 2548.