OCT 14 1946

Final Edition · ESTABLISHED 1839 · in 2 Sections—Section 1

The COMMERCIAL and FINANCIAL CHRONICLE

Reg. U. S. Pat. Office

Volume 164 Number 4532 · New York, N. Y., Thursday, October 10, 1946 · Price 60 Cents a Copy

Are We Facing a Permanently Higher Price Level?

By HAROLD B. DORSEY

President, Argus Research Corporation

Investment analyst cites war-created inflation "frozen" into economic structure in 1920's, evidenced by commodity price level 45% above prewar, and by stock prices 210% above previous high. Declares present inflation potential is even more powerful, mainly because of much higher wage costs and farm commodity price legislation. Concludes these factors will outweigh labor difficulties in motivating permanently higher stock price levels.

The many comparisons of the recent stock price pattern with the commodity price deflation period of 1920-21 are incomplete in many respects but one omission that is more serious than any of the others is the failure to comprehend the significance of the commodity price action in its broad perspective.

Harold B. Dorsey

Of vastly greater importance than the 43% decline in commodity prices and the 41% decline in stock prices in that period was the fact that, *in the eight years following*, commodity prices held at a level some 45% higher than the prewar range and stock prices rose 210% above the highest previous record and 420% over the 1921 low, preponderantly influ-

(Continued on page 1820)

INDEX

For detailed index of contents see page 1779

American Bankers Association Holds 72d Annual Convention

After lapse of two years, convenes at Stevens Hotel in Chicago, Sept. 23-25. C. W. Bailey, elected President for ensuing year and Joseph M. Dodge, Vice-President. Treasurer, S. Albert Phillips, is reelected. Other officers and division officials chosen. Adopt resolution urging that Federal expenditures be held to absolute minimum and tax program evolved which will encourage individual initiative and private enterprise. Secretary Snyder's address, others given herein.

At the 72nd Annual Convention held at the Stevens Hotel, in Chicago, beginning Sept. 23, C. W. Bailey, President of the First National Bank, Clarksville, Tenn., was elected President of the American Bankers Association. He was advanced from Vice-President, in which capacity he has served for the past year.

C. W. Bailey

Joseph M. Dodge

S. Albert Phillips

Mr. Bailey was born in Clarksville, Tennessee, and educated in the public schools there. He was first employed by the First National Bank of Clarksville in 1904 as Assistant Cashier; he was elected Cashier in 1908, and he became President in 1920. He is also President of the Southern Trust Company of Clarksville. He served as President of the Tennessee Bankers Association 1929-1930; was Chairman for several years of the agricultural committee of the Tennessee Bankers Association, and was in that position when the Tennessee bankers first achieved the 1,000 point rating of the Agricultural Commission of the American Bankers Association.

During the past two years, Mr. Bailey was Chairman of the Agricultural Commission of the American Bankers Association. He has

(Continued on page 1827)

Nuernberg Today

By HERBERT M. BRATTER

Special Correspondent of the "Chronicle"

Correspondent reports industrial damage from war bombing considable. Rubble being cleared away and business slowly reviving—chiefly in reconversion of ingenious toy manufacturing at 25% of prewar capacity. Potential competition in other items, as typewriters, feared by British. Raw material imports, particularly brass and tinplate, badly needed. Taxation confiscatory.

NUERNBERG, GERMANY—Standing by the remains of an 11th century chapel which crowns an eminence known as the Burg, one commands a magnificent view of Nuernberg, the "old city" and the new. Surrounded by a centuries old wall, old Nuernberg was a museum-piece of a city. But one cold morning early in January 1945 came the air attack, and in an hour the Altstadt was no more. Now one sees only here and there, by the skeletons of churches and an occasional surviving timbered dwelling, a suggestion of what this Medieval municipal masterpiece once resembled. Albrecht Durer's statue still stares unperturbed, but his now groggy house "stands on one leg," as do so many of the veterans one sees on German streets today.

Herbert M. Bratter

Beyond the ruins below one's glance surveys the horizon in the direction of the great stadium. There, where Hitler used to mobilize hate, today one can see the sports of the West, played by men of the New World. This was the city where Der Stuermer ranted. Last week Julius Streicher bit

(Continued on page 1831)

Rising Prices Chief Threat to Economic Stability: Steelman

Director of OWMR says beginning of second year of peace holds both great promise and great danger. Holds unless runaway prices are prevented, it will be difficult to stabilize production and employment. Asserts most salutary action for business is to reduce prices without reducing wages, and that government has four fold anti-inflation program comprising: (1) direct price controls and subsidies; (2) wage stabilization; (3) anti-inflationary fiscal and monetary policy; and (4) production controls. Concludes real wages have been kept down by rising prices. President Truman approves report.

Dr. John R. Steelman, Director of War Mobilization and Reconversion in his quarterly report entitled "The Second Year of Peace," characterized the present economic situation as "of great promise and of great danger." Though we have, he says, "an opportunity to move forward to higher levels of real income than any nation has yet achieved," we are faced with the threat that "we will be unable to shift from the present situation where demand exceeds supply to one where demand and supply are in approximate balance, without falling to a point of equilibrium on a far lower level of income and production than we now have." The great obstacle to stability, Mr. Steelman holds, is "further rapid increases in prices."

John R. Steelman

Excerpts of the outstanding portions of Dr. Steelman's report follow:

Production and Employment

In the first year of peace, the dominant economic force has been the pressure of a large volume of demand, backed by large purchasing power—in part the income of earlier periods—entering the market in an effort to obtain goods and services. This pressure has been the chief fuel of our advance since VJ-day.

As long as we were able to keep prices reasonably stable, this inflationary force drove our economy forward at tremendous speed. We have made an extraordinarily rapid turn-around from all-out war, and have reached our present high level of peacetime activity with relatively little dislocation and suffering. This is true notwithstanding labor-management disputes and shortages of materials and component parts. It is true for the economy as a whole by any measure that we use—employment, unemployment, total income payments to individuals, profits or production.

Civilian employment, following VJ-day, remained at about 51 million for several months, then advanced to 58 million, an all-time high for war or peace. Jobs have been found for 10 million returning servicemen and women, and total civilian employment in August of this year was close to 9 million above the same month in 1940.

Unemployment in August was 2 million. It never exceeded 2.7 million during the low point of our postwar transition; 8 million workers were unemployed in August, 1940.

Income payments to individuals now total about $167 billion a year, the highest they have ever been.

Business profits, after taxes, are at the highest point in history, in spite of the fact that, in some reconversion industries, profits are low because of low volume of finished output.

Farm income has risen to an all-time high and farmers have never been in so liquid a position.

(Continued on page 1819)

The Future of Atomic Energy

By A. C. KLEIN*

Engineering Manager, Stone & Webster Engineering Corporation

After reviewing progress and status in developing atomic energy, Mr. Klein holds task of converting it into electricity can be completed in three years, but whether it will be "cheap" will require years of experience to demonstrate. Says only largest producers will benefit, but collateral uses of isotropes and other materials will have a profound effect on future of engineering and industry.

1. Introduction

No one who has been present at the detonation of an atomic bomb, and who has witnessed the awe-inspiring devastation that has followed, can have any doubt that we have just turned over a leaf in the book which records the progress of civilization. The new page might properly be captioned "The Atomic Era." Today, except for a few smudges, it is a clean page on which we may write a history of the attainment of peace and plenty or, upon which, God forbid, we shall write the history of the greatest holocaust that mankind has ever known.

A. C. Klein

Personally, I believe it will be a record of the attainment of peace and of its manifold benefits, but we can not lightly proceed on the assumption that this will be so. Eternal vigilance alone will safeguard us against false steps that may set off a new conflagration. The most certain way we can prevent the use of the atomic bomb for military destructiveness is to hasten the improvement in standards of living throughout the world. To that end, the utmost efforts on the part of engineers and industry must be directed to the development of atomic energy for the generation of low cost electric power so that the peoples of the world may be assured freedom from the causes which have always throughout the history of mankind acted to promote war.

Power is the index of civilization. Adequate power for fertilizers, power for irrigation and power for farm machinery together spell a prosperous agriculture and freedom from hunger and famine. Adequate power for mines, for factories, and for transportation spell freedom from industrial slavery and low living standards and, incidentally, adequate power for household uses will go far toward insuring domestic peace.

Let us at this point pause for a few minutes to see where we stand today in our journey along the road which leads to atomic energy utilization.

2. Present Status of Atomic Energy

A. Status on V-J Day—Between July, 1942 and July, 1945, there was expended in the construction and operation of atomic bomb facilities a total of over 2 billion dollars. For this expenditure we accomplished the following:

(Continued on page 1825)

*Address by Mr. Klein at meeting of American Society of Mechanical Engineers, Boston, Mass., Oct. 2, 1946.

INDEX

Articles and News Page

Are We Facing a Permanently Higher Price Level?
—Harold B. Dorsey ____ Cover
Nuernberg Today—Herbert M. Bratter ____ Cover
The Future of Atomic Energy—A. C. Klein ____ 1778
Needed: A Free Gold Market for Stability
—James D. Mooney ____ 1779
What's Ahead for Mortgage Investments?
—Raymond Rodgers ____ 1780
Inflation, Interest Rates and Investment Policy
—Murray Shields ____ 1781
How Far Can We Protect the Investor?—John E. Hueni ____ 1782
Postwar Regulation of Securities Market
—Willard E. Atkins ____ 1782
Some Wall Street Bankers Believe Events of Coming Months
Will Determine Stock Trend—Edmour Germain ____ 1782
Some Aspects of Investment Banking—E. Allen MacDuffie ____ 1783
Bull or Bear Market?—Roger W. Babson ____ 1783
Radio: Past and Future—David Sarnoff ____ 1783
The Stock Break - Why? What Next?—John F. Reilly ____ 1784
Requirements for Export Trade—George W. Wolf ____ 1784
Baruch Defends His Atomic Control Plan ____ 1785
Truth in Politics Act Needed—Robert R. Young ____ 1786
C. W. Bailey, New ABA President, Outlines Plans ____ 1790
Banks Look Forward—Frank C. Rathje ____ 1792
Fiscal Tasks Ahead—John W. Snyder ____ 1794
The Banker Looks Ahead—W. Randolph Burgess ____ 1796
Nationalization vs. Free Enterprise—Fred I. Kent ____ 1798
Banks and Small Business—Robert M. Hanes ____ 1800
Capitalism—Its Promise and Problems—Paul G. Hoffman ____ 1802

* * * *

American Bankers Association Holds 72nd Annual
Convention ____ Cover
Rising Prices Chief Threat to Economic Stability
—John R. Steelman ____ 1778
World Trade Not Obstructed by Local Socialism
—Hugh Dalton ____ 1780
British-U. S. "Marriage" in Germany ____ 1783
Harriman Urges More and Balanced Production ____ 1785
Truman Points to AFL Responsibilities ____ 1785
Wall Street Union Asks NYSE for 25% Wage Increase and
Seven-Hour Day ____ 1788
John D. Small Reviews Employment for August ____ 1788
Chase National Bank Honors 25-Year Employees ____ 1788
100% Margins and the Market Break ____ 1789
Fund and Bank End First Annual Meeting ____ 1790

Regular Features

Bank and Insurance Stocks ____ 1808
Britain and Bretton Woods—Paul Einzig ____ 1781
Business Man's Bookshelf ____ 1834
Canadian Securities ____ 1832
Dealer-Broker Investment Recommendations ____ 1787
Mutual Funds ____ 1804
New Security Issues Calendar ____ 1837
Observations—A. Wilfred May ____ 1781
Our Reporter on Governments ____ 1830
Our Reporter's Report ____ 1843
Prospective Security Offerings ____ 1842
Public Utility Securities ____ 1784
Railroad Securities ____ 1810
Real Estate Securities ____ 1788
Securities Salesman's Corner ____ 1833
Securities Now in Registration ____ 1836
Tomorrow's Markets (Walter Whyte Says) ____ 1834

Published Twice Weekly
The COMMERCIAL and FINANCIAL CHRONICLE
Reg. U. S. Patent Office
WILLIAM B. DANA COMPANY, Publishers
25 Park Place, New York 8, N. Y.
REctor 2-9570 to 9576
HERBERT D. SEIBERT, Editor & Publisher
WILLIAM DANA SEIBERT, President
WILLIAM D. RIGGS, Business Manager
Thursday, October 10, 1946
Every Thursday (general news and advertising issue) and every Monday (complete statistical issue—market quotation records, corporation news, bank clearings, state and city news, etc.)
Other Offices: 135 S. La Salle St., Chicago 3, Ill. (Telephone: State 0613); 1 Drapers' Gardens, London, E. C., England, c/o Edwards & Smith.

Reentered as second-class matter February 25, 1942, at the post office at New York, N. Y., under the Act of March 3, 1879.

Subscription Rates
Subscriptions in United States and Possessions, $26.00 per year; in Dominion of Canada, $29.00 per year; South and Central America, Spain, Mexico and Cuba, $29.50 per year; Great Britain, Continental Europe (except Spain), Asia, Australia and Africa, $31.00 per year.

Other Publications
Bank and Quotation Record—Monthly, $25.00 per year.
Monthly Earnings Record — Monthly, $25.00 per year.
Note—On account of the fluctuations in the rate of exchange, remittances for foreign subscriptions and advertisements must be made in New York funds.

Needed: A Free Gold Market for Stability

By JAMES D. MOONEY
President and Chairman of Board, Willys-Overland Motors, Inc.

Contending a free gold market is a primary catalysis of complex elements comprised in stability, Mr. Mooney points out monetary experiments continually cheapening money will produce confusion and depression. Says experience is cast aside by a mental disease of "smart aleckism" in attempting to peg rates and prices without reference to laws of supply and demand. Holds this has brought only confusion and black markets, and urges a return to the free gold standard in order to avoid paper money inflation and promote multilateral trade throughout world.

The concept of a Free Gold Market is based upon fundamental principles which are universal in application and which, constitute a firm center-point of measure for the exchange values between currencies and between products in terms of currencies. Repeated attempts throughout history to nullify these principles have always resulted in disaster—and inevitably forced a return to the basic fact that a Free Gold Market is the primary catalyser of all the complex elements that make for stability. Governmental policies and practices in money matters exert a fundamental and profound influence on all production and distribution operations. Their determination as matters of political expediency presents major hazards to the future of industry and commerce.


James D. Mooney

Money is the common denominator by which complicated transfers of goods and services are put into simple comparable mathematical ratios. When the denominator becomes as uncertain as it is now, and particularly when this denominator is becoming continually more uncertain as political expediency decides, the innumerable transactions of production and distribution, industry and commerce are thrown into doubt and disorder. If, in the United States, we are to be plagued with further monetary experiments, particularly in the direction of continually cheapening the money with the concomitant effect of rising prices, the effect on industry and commerce will be confusion and depression and the American standard of living will decline.

"Smart Aleck" Economics vs Experience

Probably the greatest obstacle to putting our money back on a solid foundation and preventing the further march into inflation that is now seriously underway, is the form of mental disease which seems to have spread throughout the country, some outgrowth of our trying to be too smart, a flaunting of all previous human experience, particularly in the field of experimenting with paper money, a presumption that the experiences of previous generations in our country and the experiences of the various countries abroad with paper money are worth nothing. This mental disease, "smart aleckism" we might call it, has permeated America in a mysterious, insidious way just as influenza spread throughout the country during the year 1918. Men who become infected with the virus of this mental disease submit themselves to none of the discipline that must be accepted by one who presumes to pose as an authority in any sphere of action, the discipline that impels such a person to search for and know the principal factors that have been discovered and applied by previous generations. Another of the symptoms of this mental disease is the naive and "gally" presumption with which they pick out pegged rates or prices. They pick out, for instance, a pegged rate expressing, presumably, the value of the paper dollar vis-a-vis gold. They pick out pegged rates of exchange as, for example, the exchange value between the paper dollar and the paper pound sterling or the paper franc or the paper peso or

(Continued on page 1818)

What's Ahead for Mortgage Investment?

By RAYMOND RODGERS*
Professor of Banking, New York University

Noting yields on mortgages have gone down and risks have gone up, Dr. Rodgers predicts there will be no substantial increase in the interest rate, and present real estate values are not likely to be maintained. Holds readjustment is overdue since excess productive capacity and higher prices accompanying operating deficits for business do not make sense. Says long range outlook for real estate values is not good and cautions mortgage lenders to require rapid amortization of loans as factor of safety. Sees more public housing in future and asserts that, though we are riding on crest of greatest boom, the price structure is vulnerable.

Evaluation of any investment involves a consideration of the income and risk. Interest rates, in general, have declined in recent years. The rates on mortgages have been no exception to the general rule. But, while the yield on mortgages has gone down, down, down, the risk, as measured by increased valuation, has gone up, up, up. This, in a nutshell, is the paradox of mortgage lending. It is not too much to say that the very future of mortgage lending as we know it depends on the solution of this problem.


Raymond Rodgers

Obviously, the greatly reduced margin of profit available to the lender under the prevailing low interest rates does not warrant the assumption of increased risk; but that is exactly what the competition of capital pressing for investment is forcing upon lenders. The twofold character of this danger must not be overlooked. Thus, the housing shortage has drastically increased the market value of houses; but, in addition to this market increase, the mortgage "shortage" has drastically increased the appraisal value which lenders will recognize.

Mortgage lenders recognize the inherent danger of reduced return and increased risk per dollar of investment. But many lenders do not recognize all of the risks. Still other lenders, under the driving force of competition, tend to minimize the risk—to substitute wishful thinking of the "New Era" type for the grim realities of economics. Today, I propose first to analyze the pertinent economic factors, and then to suggest mortgage lending policies under such circumstances.

*An address by Prof. Rodgers before the 33rd Annual Convention of Mortgage Bankers of America, Cincinnati, O., Oct. 2, 1946.

The Rate of Return

The question of rate of return can be disposed of in short order. There will be a much stronger de-

(Continued on page 1816)

BUSINESS BUZZ

"Just Put 'Satisfactory' on Her Application, Johnson, and Not 'Huba-Huba'!!"

World Trade Not Obstructed By Local Socialism, Declares Dalton

Insisting that Britain will push international trade aims, Chairman of Fund and Bank and Chancellor of Exchequer points to New Dealism here. Sterling revaluation not intended. Denies British sales of U. S. securities as cause of stock break. Cites Britain's postwar export revival, and mutual advantages of Anglo-American Loan Agreement.

The planned economy of his country's Socialist Government will not obstruct international measures for expanded world trade, Hugh Dalton, Great Britain's Chancellor of the Exchequer and newly elected chairman of the International Bank and of the International Monetary Fund, insisted at a press interview Oct. 4. Sir Hugh pointed to the TVA and other socialistic measures in the United States to support his position that domestic regimentation and international liberalism are not mutually exclusive.


Sir Hugh Dalton

Questioned further on the incidence on United Nations' aims of Russia's aloofness from the Bretton Woods institutions and from the International Trade Organization, the British official declared that present plans would be vigorously pursued nevertheless.

Sterling-Dollar Revaluation Not Contemplated

He reiterated his country's position of having "no present intention to vary the relationship of sterling and the dollar," despite the penalty on British importers because of the rising American price level.

Discounts British Selling of U. S. Securities

Questioned as to the statement by Sen. Owen Brewster, Republican of Maine, ascribing partial responsibility for the stock marke break to British sales of American responsibility for the stock market securities, the Chancellor replied:

(Continued on page 1826)

Inflation, Interest Rates And Investment Policy

By MURRAY SHIELDS*

Economist and Vice-President, Bank of the Manhattan Co.

Economist expects post-reconversion years will embrace high physical production, intensified competition entailing higher business mortality, prices higher than in 1930's, and anti-inflationary monetary policies. For investment policy he recommends: (1) Emphasis on quality and diversification of risk; and (2) staggering maturities in bond holdings, with avoidance of speculation in long-terms.

After 12 years of a buyers' market for credit, we appear now to be moving toward a sellers' market, which would have profound implications for the users as well as the suppliers of long and short-term credit. It is my purpose here to chart out roughly some of the changes that appear to be in the making and then to discuss briefly what they suggest as to investment policy.

Murray Shields

The complex forces which affect interest rates comprise the whole range of our economic life, including not only the factors which are subject to quantitative measurement but many where qualitative considerations must be our guide. For example, the demand for credit is only partially measurable, the supply of funds is subject to varying degrees of elasticity, and the risk factor for which allowance is made in quoted rates is vital but not subject to precise measurement. While we must make every effort to organize our thinking around the statistics of supply and demand for credit, it would be a serious mistake not to give adequate weight to the psychological factors comprising the be-

(Continued on page 1822)

*An address by Mr. Shields before the American Life Convention; Chicago, Ill., Oct. 8, 1946.

Britain and Bretton Woods

By PAUL EINZIG

Dr. Einzig calls attention to change of British feelings toward Bretton Woods institutions and resentment against use of their services by British Government. Holds this sentiment has changed, because of theory that if Britain, as member of Bretton Woods institutions does not borrow from them, she will be actually lending her funds when she cannot afford to do so. Says Britain is in no position to indulge in foreign lending.

LONDON, ENGLAND—There are indications of a change of British feelings towards the Bretton Woods system. Until recently it was considered by the majority of the public as an unmitigated evil, and the way in which it was forced upon this country caused deep resentment. In official circles that resentment became accentuated by the humiliating experience of Savannah, where the British delegates felt they were treated with the utmost contempt.

Paul Einzig

One of the manifestations of that resentment was the decision that Britain should not make use of the facilities of the International Monetary Fund or of the International Bank for Reconstruction and Development. There is, however, also another reason for this decision.

It is considered in London a matter of prestige that Britain should not borrow through the Fund or the Bank, the facilities of which, it is felt, are reserved for second-rate countries. This attitude originated between the two wars when it would have been considered beneath the dignity of countries such as Britain, France or Italy to borrow through the League of Nations or the Bank for International Settlements. The two Bretton Woods institutions are now regarded in the same light, as the ultimate reserve of the semi-bankrupt countries.

(Continued on page 1805)

Observations . . . .

By A. WILFRED MAY

International Word-Slinging

Conforming to the public's growing interest in clarifying "the meaning of meaning," the semanticists might well devote their exclusive effort toward stopping the gross misuse of language as applied to international affairs. *Imperialist, Isolationist, Appeaser, Aggressor, Liberal,* are a few of the terms whose intended meaning fluctuates *ad hominem* with the emotions of the user, and is stripped of all objectivity.

A. Wilfred May

Take the cliche *imperialism,* with which Mr. Wallace, Elliott Roosevelt, et al., denounce Great Britain, and with which charge the Political Action Committee is urging the populace to fire a mail barrage at the President and the Congress. Its spokesman, Mr. Wallace, first pleads for the division of the world into distinct self-contained orbits, with Russia and ourselves ruling our respective spheres of influence side-by-side. He argues at great length the fairness of letting Russia dominate the Balkans and Eastern Europe, and of our controlling Latin America—but then goes on to vituperate against Britain for wanting to participate in the Mediterranean and Middle East. (And this when the British are clearly and sincerely endeavoring to terminate their long-standing arrangements in India and Egypt.) So he really means: Imperialism *for whom?*

* * * *

Directly allied to this literal double-talk is the typical obfuscation about *isolationism* which is continually injected by the pseudo-Liberal gang. In the face of their anti-isolationist epithet-hurling before and during World War I, it is they who have now wheedled themselves into the exact category which they formerly denounced. In his "Sermon on the Mount" of New York's Madison Square Garden, Mr. Wallace, the group's voluble and ubiquitous leader, clearly revealed his conception of the world as that typical of an "arch-isolationist." Although former America-First haters, he and his fellow-agitators now almost exactly duplicate that theme by stressing that what goes on in large sections of Europe—including part of Germany—is none of our business, by demagogically pleading to "bring the boys back home," and by throwing the outworn tomatoes at the British scapegoat.

* * * *

Appeaser is another anti-semantic epithet conveniently flung about to camouflage individual ideology. Epitomized by Neville Chamberlain, the many loyal Britishers and Americans who wishfully thought that World War II could be averted or abbreviated, were mercilessly castigated as disloyal, Fascist and/or anti-Semitic. But now the former hurlers of these epithets themselves are the reincarnated pacifists, abusing the present opponents of dictatorship and lawless aggression as warmongers. And this somersaulting in the appeasement role is nowhere more strongly demonstrated than by Stalin himself. At the time of Munich in 1938, Moscow and the world's "liberal" press launched an avalanche of attack against Mr. Chamberlain for his "cowardly surrender" of the world's liberty-loving people. But just a year later in August, 1939, in making their pact with Hitler that set off the conflagration, the Russians placed the responsibility for war on "imperialist" England and conversely saw fit to denounce her for *not* appeasing. The later 1941 triple-reverse back to anti-appeasement and war by the Stalin-Molotov

(Continued on page 1830)

NY Group of IBA to Hold Annual Meeting

The New York Group of the Investment Bankers Association will hold its annual business meeting on Oct. 15 at the Hotel Pierre, New York City. The meeting will be followed by a dinner.

Principal speakers will be Robert Cutler, President of the Old Colony Trust Company of Boston, and Charles S. Garland, Alex. Brown & Sons, Baltimore, president of the IBA.

Wickliffe Shreve, Hayden, Stone & Co., New York City, is chairman of the dinner committee.

Milo Osborn Now With Paine, Webber Firm

(Special to The Financial Chronicle)

DETROIT, MICH.—Milo O. Osborn has become associated with Paine, Webber, Jackson & Curtis, Penobscot Building. Mr. Osborn has recently been with the U. S. Ordnance Department. Prior thereto he was Manager of the municipal department for Cray, McFawn & Co.

Some Wall Street Bankers Believe Events of Next Few Months Will Determine Stock Trend

By EDMOUR GERMAIN

Two factors are seen as the dominant influences affecting current trends in the stock market. One of these is the disturbed labor situation. Practically all the analysts are agreed on this point. It is the strike itself and not necessarily the demands of the strikers which upsets the economy, they hold. The other factor—as one banker put it—though the war has been over a year, peace does not yet exist in the world, notably on the continent of Europe. According to this banker, though war may not break out with Russia there will probably be a succession of international crises that will retard any return to normalcy in business.

Some Wall Street banking circles believe that the stock market has reached a sort of fork in the road, so to speak, and that the course which stock prices will take now will depend very much upon the events of the next few months. By December, they think, the trend of the market should be fairly definitely established.

Though the market has given some evidence of having reached a kind of bottom in prices, nevertheless the belief is widespread among the bankers that a further decline is to be expected.

One view is that stock prices are still too high relative to corporate earnings and that a great flood of consumer goods must find its way to retail outlets before the situation can change materially. Another view, however, is that basic trends underlying stock prices are not bad at all now but that unless the stock market reacts positively to the rising index of department store sales very soon the economy really is sick.

A third view is that there are times when it is evident how the market will go and that there are other times when it is not so evident and that this is one of those times when it isn't so evident. There is thus a curious mixture of bearishness and bullishness in the situation.

The same condition is also known to exist among the brokers on the "Street." One broker, for instance, though aware of certain potentialities in the American industrial mechanism, says he hasn't advised a customer to buy in weeks. Another, claiming to be bullish, feels that the market is due right now for another substantial rise but is convinced that under the impact of declining

(Continued on page 1844)

How Far Can We Protect the Investor?

By JOHN F. HUENI*

Deputy Commissioner, Michigan Corporation and Securities Commission

Michigan Securities Commissioner holds State Securities Administrators must avoid: wet-nursing the investor, stifling free enterprise, meddling with corporate management functions, and gazing into crystal ball. On the other hand, to help inexperienced investor, regulatory commission must go beyond merely insuring full disclosure and stopping actual fraud—by scrutinizing the following elements: warrants and options to management and underwriters, "bail-outs" of insiders, vendors' profits, excessive selling prices, unwarranted salaries, and voting power infringements.

In answering the question of how far we can protect the investor, we will begin by considering the various types of securities laws in force.

John F. Hueni

Under the federal law, the Securities Act of 1933, as amended, the test is full and fair disclosure to prevent fraud. In addition, 47 states have Blue Sky Laws. 12 of these states do not presume to pass upon securities issues before they are offerd to the public; this leaves 35 states, or about ¾ of all the states, with regulatory laws. In these 35 states, an application must be filed and the security must meet certain tests, and, except in notification procedures, affirmative action must be taken by the state body before the securities may be sold to the public. What are these tests?

As might be expected, 32 of these 35 regulatory laws mention that a test is the presence of fraud, or tendency to work a fraud. But practically all of these laws go further. First, for the guidance of the securities administrator, they specifically outline certain species of fraud; and second, they seem to go beyond fraud or the tendency to work a fraud, and also set up further tests to be met. In 19 state laws the word "fair" appears, that is, the plan of business or the terms of the offering must be "fair." In 13 state laws it is provided that the enterprise "must not be based on unsound business principles" or "unsound practices." In six states the securities administrators are charged with the duty of determining whether the security offered promises a fair return to the investor, and in one state the law comes right out and says the security must show promise of a reasonable profit to the investor. Thus, we have traversed from fraud into a twilight zone where the proper path is more difficult to follow. In short, the legislatures of 31 states have apparently attempted to do more than to protect their investors against fraud alone.

There are certain dangers present when a securities administrator refuses to qualify an issue on grounds which might be difficult

(Continued on page 1813)

* An address by Mr. Hueni before the National Association of Securities Administrators, New York City, Sept. 27, 1946.

Postwar Regulation Of Securities Market

By WILLARD E. ATKINS*

Professor of Economics, Washington Square College, New York University

Dr. Atkins explains methods of Brookings Institution in studying postwar period business financing and effects of securities market regulation. Asserting there can be little disagreement regarding desirability of healthy and free functioning capital markets, he maintains regulations should not go beyond preventing fraud or requiring adequate information. Holds competitive bidding should not be required on all classes of issues; that investment functions should not be segregated; and that Investment Banking should not be decontralized. Urges greater simplicity in regulation and warns fixed rules cannot operate well under changing conditions and new situations in capital market.

Early in 1943, Brookings Institution decided that business financing in the postwar period was likely to be important. There would probably constitute one of the problems to which it should give advance attention. Thus, the study got under way. The more we looked into the situation, the more we began to feel it was necessary to warn the public against two things:

Prof. W. E. Atkins

1. That stagnation in the capital market was not a more or less permanent feature of the national economy despite the interpretation placed upon certain evidence gathered by the temporary national economic committee.

2. That the investment banking business, let us say security business in general, should not resign itself to gradual eclipse, but rather, it should prepare itself for a growing period of usefulness.

We started our study by turning back to the World War I period. The period in 1913 to 1921. 1921. The evidence we found there led the authors to believe that important as is increasing totals of production to the demand for funds, a still more important factor is rising prices. We

(Continued on page 1828)

*Address by Dr. Atkins before the 29th Annual Convention of the Association of Securities Administrators, New York City, Sept. 27, 1946.

Some Aspects of Investment Banking

By E. ALLEN MacDUFFIE*

Formerly With Securities and Exchange Commission, New York City

Stating functions of Investment Banking as: (1) organization; (2) underwriting; and (3) distribution, Mr. MacDuffie stresses proper distribution in securities marketing. Holds important function of underwriters is ability to gauge market and urges that issues be properly placed and not absorbed by "free riders." Says SEC, in processing registration statements, protects issuer and underwriter as well as investor, and advises making sure of facts as well as strengthening a corporation's organization, "so that five years after the financing you will be proud to hear the name of the corporation which obtained capital funds through your firm."

Now that people are clamoring for meat rather than new securities issues, we have an opportunity to calmly appraise the past 12 months' securities business. Such appraisal may guide our future activities.


E. Allen MacDuffie

The past has been a hectic period of extremes. We have seen new issues being sold at premiums of as much as 20 points on the day of the offering. Persons who knew little more than the name of the issuing corporation bought new issues at premiums even while complaining they could not buy at the offering price. How many times did you think the situation was like the '20s?

In addition to the many old approaches that were dusted off and used, the situation was like the '20s in some fundamental respects. First—the abundance of money seeking investment made it possible to dispose of issues within a very short period. Second—the risk of having to carry an unsold issue was greatly reduced. Third—as a result of the easy money market there was increased competition in the investment banking business. Not only were new investment houses organized but the field of investment banking was invaded by securities firms that heretofore had been only dealers.

The dealers, with their ability to gauge markets, had initially more experience in the securities business than some other firms prior to their entry into the investment banking business. For example, Lehmans were in the cotton trade and J. & W. Seligman were in the mercantile business. They also moved into this new field of investment banking

(Continued on page 1829)

*An address by Mr. MacDuffie at Dinner Meeting of the New York Security Dealers Association, Oct. 8, 1946. Mr. MacDuffie is a member of the law firm of McLanahan, Merritt & Ingraham, New York City.

Bull or Bear Market?

By ROGER W. BABSON

Mr. Babson holds it is too soon to determine whether we are in a bull or bear market, and ascribes recent decline to a communistic scare; arbitrary and unreasonable demands of labor; thinness of market; and possible bombing of certain large American cities. Urges small investors be protected in same way government protects small bank depositors.

Letters and telegrams are coming to me asking whether the country is now in a "bull" or "bear" market. This is a good deal like asking an expectant mother whether she is to have a boy or a girl. The simple truth is that the break has not sufficiently advanced to be able to say whether this is a bull or a bear market. Anyone could guess and many will guess correctly; but it is not up to a statistician to guess about anything. We may be in a bear market or this may be only a corrective movement in a bull market.


Roger W. Babson

Break Not Unexpected

In previous weeks I have been suggesting that this break would come and have given various reasons for such a situation. If readers will refer to my Annual Forecast for 1946 they will find that Forecast Number 32 reads as follows:

"If Stalin lives and his health continues good, he will be the world's most powerful man in 1946 and may be a factor in deterning world prices as well as production. The markets may even witness a 'Communistic Scare' during 1946; but they should recover soon thereafter."

Those who trusted in me and followed these Annual Forecasts should have been prepared for what has happened.

In addition to the present break being a Communistic Scare, it was due to the arbitrary and unreasonable demands of labor. The break really started with the railroad strike and President Truman's veto of the Case Bill. It was especially disastrous during the trucking and shipping strikes in New York City and which nearly put its newspapers out of business. Readers who lived in

(Continued on page 1816)

British-U. S. "Marriage" In Germany

(Exclusive to the "Chronicle")

Merger of U. S.-U. K. zones by Jan. 1 will overcome many economic problems. Will entail better allocation of coal and increased mine output.

BERLIN, Germany.—Interviewed by the "Chronicle" on problems and advantages of the economic merger of the British and American zones, an American official said:

"To a considerable extent the overall economic problems posed by the zonal division of Germany will be met by the 'marriage' of the British and American zones, through the better allocation of coal and increased mine output. The merger will make possible increased rations in the British zone.

"At present both Britain and America are contributing to the support of their zones of Germany. In our zone Congress cut our contribution for this fiscal year to around $120,000,000. The UK has an appropriation of £100,000,000, but this is reduced by the amount of German exports from the British Zone, so that Britain's net contribution is considerably less than the figure mentioned. American practice is to credit to a special fund the proceeds of exports from the American Zone.

"The merger of the two zones should be fully in force by January 1, but cannot be expected to be completed before that, since the British are tied up with the so-called Spartan Plan, involving detailed economic planning according to end products, as contrasted with the American system of planning rather according to basic commodities. The detailed planning involved in the Spartan Plan is more a security than an economic measure.

"Our main contribution to the bizonal merger is food. We have put in some of our military stocks of food. Besides, the American Zone has the larger agricultural area of the two, though it is not self-sufficient in all foods. For example, we authorized the sale of some cattle to the USSR's Zone. German businessmen in our zone on the other hand bought sugar from the Russian Zone. Under the bizonal merger there will be a common ration policy along the lines of the four basic points set forth in the September 5 press release.

"While we can contribute to the merger chiefly food, the UK zone can contribute coal and steel needed in the U. S. Zone, which has many processing industries. Under the Nazis quite a blackmarket activity developed in Bavaria in the manufacture of civilian goods. The resultant capacity and knowhow still exist and will now be very useful. This

(Continued on page 1830)

Radio: Past and Future

By BRIG. GEN. DAVID SARNOFF*

President, Radio Corporation of America

Gen. Sarnoff, in recounting achievements of radio, predicts further vast expansion in its progress and usefulness. Ascribes advancement to freedom of science and scientists. Foresees new and terrible weapons in war, and cautions against complacency, urging that we keep strong, morally and physically. Says advances in science are boom to world peace and concludes we must, with courage and vision, continue unceasing exploration not only in physical sciences, but also in political and social sciences to secure world peace. Sees possibility of science converting deserts into gardens and controlling weather.

The achievements of radio, from 1906 to 1946, have reached heights of greatness far surpassing any dream that anyone of us had in the beginning. The wonders accomplished represent the combined vision, energy and ingenuity of countless scientists and engineers, planners and industrialists. Through their efforts, new radio inventions and services have emerged for the use of people everywhere. The applications of radio are so manifold that virtually all phases of economic, social and educational life have been benefited by its magic. The American radio industry's splendid record of accomplishment, in peace and in war, is worthy of the finest traditions of our country.


Gen. David Sarnoff

The aid, encouragement and cooperation of the Army, Navy and government scientific agencies deserve the fullest recognition. It is difficult to over-estimate the contributions of the military and naval laboratories and government scientists to the advance of radio and electronics. Likewise the Federal Communications Commission is to be complimented for its efforts to expand the great service of broadcasting, to advance world-wide radio communications, for the encouragement given to American radio amateurs, and for helpful assistance in extending radio into new fields such as aviation and television.

As I look around me tonight, I see distinguished leaders of competing organizations who have

(Continued on page 1814)

*An address by Gen. Sarnoff at dinner commemorating his 40 years in radio, New York City, Sept. 30, 1946.

Public Utility Securities

The New American & Foreign Power Plan

About two years ago American & Foreign Power and its parent, Electric Bond and Share, filed a plan of recapitalization for Foreign Power, but the SEC has not yet published its findings. Recently, the Norman Johnson group of second preferred stockholders filed a new plan with the SEC, which is considerably less favorable to the top company than the 1944 plan.

American & Foreign Power was incorporated in 1923 and during the 1920's and 1930 acquired control of a large number of utilities in Latin America and some interests in China and India. Many of these were acquired at prices reflecting relatively high foreign exchange rates and while most of the properties have proved steady earners, the dollar value of the earnings has shrunk along with the deterioartion in exchange rates, and huge arrears have accumulated on the parent company's three preferred stock issues.

Electric Bond and Share invested about $277,000,000 in Foreign Power and the public also put in a large amount (system assets are carried at over $600,000,000 in the 1945 balance sheet). EBS's various holdings of senior and junior securities are now worth marketwise about $119,000,000, it is estimated, but even this figure includes a substantial amount of "water" since the junior securities appear substantially over-priced in current markets (the first preferred issues on the other hand appear somewhat undervalued).

In the original plan Electric Bond and Share suggested that it receive in exchange for holdings of bonds, notes, preferred and common stocks and warrants, about $8,000,000 bonds and cash and some three-quarters of the new common stock. Public holders of Foreign Power securities would receive about $113,000,000 bonds, over $15,000,000 cash, and about one-quarter of the new common stock issue. The company thus voluntarily wrote off a large part of its original investment. This, however, did not satisfy public holders of the sceond preferred stock (who own about 15% of the issue versus 85% held by EBS). The new plan proposed by the group representing this stock does not greatly alter the original plan, but cuts down EBS's interest in the new common from about 76% to 42%.

Under the new plan public holders of the 5% debentures would obtain $1,075 in new 3s for each debenture; the $7 preferred would receive $100 cash per share and one share of new common; the $6 preferred, $100 cash and 4/5 of a share of new common; and the second preferred 1¾ shares of new common (the old common stock and warrants would not participate). Under the plan 58% of the new common stock would go to public holders—19% to the old $7 preferred, 10% to the $6 preferred, and 29% to the second preferred.

In the 12 months ended June 30, Foreign Power reported a balance for interest charges of $13,691,842. Under the latest proposed plan the company would issue $35,000,000 of sinking fund debenture 3s due 1967, $80,000,000 convertible debenture 4s and 2,500,000 shares of common stock. The new fixed charges would be about $4,250,000 and on the basis of the recent earnings statement (and disregarding the proposed sinking fund), there would be a balance of about $9,400,000 for the common stock or $3.76 a share (the figure under the old plan would apparently be somewhat lower).

What would the new common stock be worth? Brazilian Traction, Light & Power, which might be comparable in some respects to American & Foreign Power, is currently selling on the Curb at 21, or about seven times earnings. The yield (after allowance for the 15% Canadian Tax on the $2 dividend) is over 8%. On a comparable price-earnings yardstick the new American & Foreign Power stock would only be worth 26. However, considering the indicated speculative interest in Foreign Power, it might be expected to sell (initially at least) at somewhat better levels—possibly in the 30-35 range. Assuming a price range of 25-35 for the new stock as a working hypothesis, market values of the various securities held by the public would work out about as follows:

	Recent Market About	—Est. Value Under— Plan I	Plan II
Bonds	106	106	107½
$7 preferred	107	118-123	125-135
$6 preferred	94	116-120	120-128
2nd preferred	22	13-18	44-61
Common	6	½-¾	Nil
Warrants	1½	Nil	Nil

It should be emphasized however that no accurate conclusions can be drawn until the SEC has revealed its findings on one or both plans, or proposed a plan of its own. EBS in presenting its own plan indicated that it had contributed 80% of the new common stock equity ($262,700,000 of the $329,100,000 equity cash paid into the Foreign Power treasury), which perhaps explains its assignment to itself of 73% of the new stock. But this percentage, however, may not take account of the relative *income* received on the respective investments of EBS and the public over a period of years though on the other hand EBS is giving up some of its senior claims. The whole problem of subordination is too involved to be discussed here. To hazard a guess, the final plan may be somewhere between the two plans already proposed.

Regarding Foreign Power's properties in the Argentine, it is possible that the government might wish to take them over, since President Peron has indicated that he wants to end all foreign interests in the nation's economy. However, the price of about $95,000,000 recently paid for International Tel. & Tel.'s properties is considered a fair settlement and seems to indicate that Foreign Power would be fairly treated in any such purchase.

Otis Opens Buffalo Office Under Canfield

BUFFALO, N. Y.—The appointment of Gilbert B. Canfield as Manager of the new Buffalo office of Otis & Co., in the Marine Trust Building, was announced in Cleveland Oct. 3, by William R. Daley, President.


Gilbert B. Canfield

Mr. Canfield brings to this position 23 years of experience in the securities field, having been with the Investment Department of the First National Bank of Cleveland for ten years before he and his associates formed the T. H. Saunders Co., Investment Dealers.

Mr. Canfield became Otis & Co.'s western New York representative in 1943. Associated with him in Buffalo will be A. J. Todd, John L. Battel and Clair Kramer.

Mr. Canfield is the son of the late George R. Canfield, founder and President of the Canfield Oil Company. He is a member of the Buffalo Athletic and Park Clubs, and has been an active worker in drives for the Red Cross and the Community Chest.

With Geo. Birkins Co.

George Birkins Company, 107 Washington Street, New York City, has announced that M. E. Birkins, formerly with D. F. Bernheimer & Co., Inc., has become associated with their firm.

The Stock Break—Why? What Next?

By JOHN F. REILLY, J. F. Reilly & Co.

Dealer ascribing immediate causes of market break to technical factors, expects postwar economic readjustment. Forecasts end of bear market at 152 for the Dow-Jones Averages.

We have witnessed and felt the repercussions of the 46-point reaction in the Dow Averages. It has taken its toll in all markets—stock, bond, municipal, rail. No individual person or any one security has not been disturbed by this tremendous and quick break.


John F. Reilly

I term it "break" for I cannot justify it as a sell-off or mere reaction. It is definitely a break in value and a break in the trend of security markets.

I would offer the following factors as the main causes of this sharp break and the timing thereof:

The Securities Situation—I refer to the enthusiasm for the new issues and lack of attention being given the older and more seasoned items. There was unrecognizable, acute weakness in the older issues for weeks before it was felt in the new issues. Therefore, when the "break" did come the feel for the true market or marketability of the old issues didn't exist. There had not been any recent interest in them—either by the traders, salesmen or customers. Consequently, confusion that led to disorganized quotations and markdowns in values.

The Personal Aspect—Everyone was a little too fat and complacent. Sleeves needed rolling up and work was to be done. But we had an excess of "$25,000 millionaires" in and around the business. All were content, relaxing in their long positions and connections in getting into the latest "hot one" or "daily double." You know that bull markets don't start, nor are they maintained, when everyone has long positions . . . never have or will. We will always be governed by the law of supply and demand. That's basic.

Timing—The timing for all this to take hold was perfect. We had the Street "lolling in its success." Inventories were heavy, and sights were on the six-months tax feature. Traders and salesmen were thinking more of their personal tax brackets and not their customer's or employer's conditions or problems. We had multitudes of money in the hands of the multitudes. Ordinary week-enders were taking prolonged vacations of luxurious lengths—four weeks,

(Continued on page 1832)

Requirements for Export Trade

By GEORGE W. WOLF*

President, United States Steel Export Company

Prominent export executive points out fundamentals of successful foreign trade and notes changes that have occurred in U. S. international commercial relations. Stresses value of foreign trade to all nations, rich and poor, developed and undeveloped, and urges more attention to increased imports. Outlines organization required for foreign trade operations, and concludes that since we cannot go on selling without a final balance in our international payments, each exporting concern must properly evaluate its own risks in international business. Says foreign loans, though sometimes essential, are not a substitute for domestic imports.

The organization requirements for successful export business are no different as to fundamentals than for any home business.

But since we are to consider the requirements of export, let us first take a careful look to see what Foreign Trade really involves.


George W. Wolf

Foreign Trade is based on one fundamental principle and a few indispensable conditions.

I shall attempt to establish this one fundamental principle. It follows:

The various regions and nations of the world are not equally favored by nature in potential wealth; the skill, efficiency and aptitude for social organization and collective endeavors of their inhabitants differ widely.

Favorable climate, richness of soil, existence of minerals, not found elsewhere, or their superiority in quality and concentration, adequacy of cheap and plentiful thermal or hydroelectric power, the fortunate location of resources with respect to each other and to the centers of production and consumption, facility of transportation, and other physical factors, render a region particularly adapted to the production of certain commodities.

On the side of human characteristics, marked proficiency of the labor of one country in special crafts, exceptional talents of its leaders for organization, management and administration, healthy political environment, ability of its people, of all classes, to work together in a common effort for a common goal, are paramount

(Continued on page 1835)

*An address by Mr. Wolf before the meeting of the Management Division of the American Society of Mechanical Engineers, Sept. 30, 1946.

Baruch Defends His Atomic Control Plan

In accepting "Freedom House" award, he admits plan impairs national sovereignty principle, but asserts it does not impair any country's national dignity or national security. Says U. S. asks nothing that it is not willing to give, and holds effective atomic control is a path to peace.

In an address on Oct. 8, broadcast over the Columbia Broadcasting Network, Bernard M. Baruch, following the acceptance of the Annual Freedom House Award, outlined a new the plan of his committee for international atomic control and upheld the principle that it should be permitted to infringe on sovereign power of nations. He asserted that America gets nothing that it is not willing to give and warned that if effective control was neglected, the way would be opened for disastrous war and chaos, whereas control would open up a road to pepetual peace.

Bernard M. Baruch

The text of the address follows:

This award, if deserved at all, is deserved primarily by my devoted associates who have helped me formulate the American atomic proposals. The President, the Secretary of State, and certain Senatorial advisers have given full authorization to our program. That program still stands—generous and just. And no amount of deliberately created confusion shall prevail against it.

The plaque reads:

"There must be no veto for those who violate their solemn agreements."

I am happy that Freedom House chose this text, for it exemplifies one of the weightiest points in the American attitude—the non-application of the Great Powers' veto to protect offenders, once a treaty of prevention and punishment dealing with atomic energy has been agreed upon. Our proposal is concerned with the veto power only as it affects this particular problem, and not with the general veto written into the structure of the United Nations.

As to the veto, I repeat: "The bomb does not wait upon debate. To delay may be to die. The time between violation and preventive action or punishment would be all too short for extended discussion as to the course to be followed."

This peace we are enjoying—if that be the right word—threatens to become what a German historian said peace is: a brief interlude between wars.

Never were the opening words of the American proposal so true as they are at this time: "We are here to make a choice between

(Continued on page 1833)

More and Balanced Production: Harriman

New Secretary of Commerce, in statement to Press, says our basic problem is to direct our abilities to peacetime production and through trade and sound financial assistance to enable other countries to rebuild. Pledges Commerce Department's aid in helping business, "particularly small business," in meeting needs of people.

W. Averell Harriman, on Oct. 7, just after his induction as the new Secretary of Commerce, issued a statement to the Press in which he called for more and balanced production to solve our domestic difficulties and to aid other nations to rebuild. He pledged the Department's aid to business in the United States, "particularly small business." The full text of the statement follows:

W. Averell Harriman

I have come to Washington to go to work. I would much prefer to say nothing just yet, but I am glad to express in a few words my general attitude in taking on the job of Secretary of Commerce and becoming a member of the President's Cabinet.

I have tremendous confidence in the people of the United States. From my experience overseas I had an opportunity to see the amazing job we did in the war. The people of the United States—a free and peaceful people—mobilized their resources to achieve victory with their allies over ruthless enemies under totalitarian governments who had been preparing for war for years. The job that the free people of the United States did during the war was superlative in every way—in the fighting qualities of our soldiers, sailors and airmen under fine leadership and in the outstanding achievements of the workmen, managers, and engineers—men and women alike—in the factories, on the farms, in the shipyards and in the mines. We not only supplied our own armed forces with effective equipment and supplies, but gave vital assistance to the forces of all our allies and their civilian populations as well.

Now that we have returned to peacetime activities, it is but natural that we face grave problems in the reconversion from our wholehearted wartime concentration of effort. I have some understanding of the serious difficulties involved, but from my faith in the ability and vitality

(Continued on page 1829)

Truman Points to AFL Responsibilities

Says its goal as a custodian of American democracy should be cooperation with industry and government in precluding sub-standard wages and inflationary prices.

President Harry S. Truman, on Oct. 8, sent a message to William Green, now presiding at the 65th Annual Convention of the American Federation of Labor at Chicago, in which he lauded the organization as a custodian of American democracy and called upon it to cooperate with both industry and government to secure abundance for wage and salary earners as well as farmers and professional people and to preclude "the payment of sub-standard wages, just as it precludes inflationary prices which eat into real purchasing power."

President Truman

The text of the message follows:

Dear Mr. Green:

I very much regret that I cannot be with you on this most auspicious occasion, the 65th annual convention of the American Federation of Labor. This convention is of deep significance because the officers and members of the A. F. of L. are among the chief custodians of American democracy.

This enduring trusteeship has brought a long record of gains for those who labor. Many of these gains are measurable in economic terms, in better wages and working conditions, in improved living standards and greater security. Beyond these tangible benefits, which have been felt in millions of homes throughout the land, are other contributions, equally vital to the workings of democracy—the growth of social consciousness and respect for human values that is the true symbol of freedom.

But in offering congratulations to the American Federation of Labor, my chief desire is to look ahead, to the immediate task and responsibilities that lie before you. This is a great moment in history and it is no accident that the members and leaders of organized labor now have such a decisive part to play—a long record of continuing service has earned them that solemn right.

Moreover, this obligation is laid upon you at a time when not only the welfare and security of the American people but the peace of the world may be at stake.

To me at least, the part that organized labor must play is definite and clear. Now, more than ever, organized labor must speak for and act in behalf of all who labor. We must demonstrate, as you did during the war, that the goals of organized labor are identical with the goals of our democratic nation.

Today, no less than in war time, our most compelling need is full, sustained production. Our demonstrated capacity holds out the promise of secure abundance for America's wage and salaried workers as well as for our farmers and business and professional people. But to reach this goal we must use all of our resources in materials and men, and we shall need the full cooperation of industry, labor and government.

By definition, this goal precludes the payment of substandard wages, just as it precludes inflationary prices which eat away real purchasing power. It precludes oppressive child labor and discrimination against any group regardless of sex, race, color or creed.

There are those who doubt labor's motives and question labor's aims. Now, as always, the answer to that challenge must come from within the ranks of labor. I am confident that the delegates to this great convention will be eager to reply.

Congratulations and best wishes for a most successful convention.

Very sincerely yours,
HARRY TRUMAN.

Illinois Brevities

CHICAGO, ILL.—Home mortgage levels have become the subject of montroversy here, with some bankers and real estate men declaring that loans made by savings and loan societies will exceed the value of the mortgaged property by 1948. Savings and loan officials reply that most criticisms arise from envy, but admit the loans are "much more generous" than formerly.

In a pre-convention interview, Frank C. Rathje, former president of the American Bankers Association, entered the debate by urging that Federal guarantees should be restrained rather than expanded in the present period of high building costs.

The nation would be better served by "building a normal credit structure based on normal credit risks," Mr. Rathje said. The President of the Chicago City Bank & Trust Co. and of the Mutual National Bank of Chicago said a "superstructure based on government guarantees and insurance will lead only to overexpansion and speculation."

* * *

Charles J. Faulkner, Jr., general counsel of Armour & Co., who guided the packing firm through the legal difficulties of the reorganization following World War I and later recapitalizations and refinancings, will retire Nov. 2 after 29 years in the post and 41 years with the company. He is being urged to continue as a director and a member of the executive committee.

* * *

Several foreign governments have requested space in Chicago's Merchandise Mart to display products of their industries and to house local consulates, it was disclosed. The Mart now is fully occupied, but the management is awaiting release of some of the 810,000 square feet held by government agencies.

* * *

The Circuit Court of Appeals here put an end to a 25-year-old case when it upheld the cement industry in its struggle to quash the Federal Trade Commission's charges of price-fixing. In a ruling similar to the Supreme Court decision of 1925, which was followed by renewed FTC suits 12 years later, the court said the use of basing points "appears not to have been the result of any collective activity."

* * *

Ward Farnsworth, Chicago realtor, said land values in the Loop now are only 60% of their 1929 peaks, contrary to any beliefs that commercial real estate is enjoying an inflationary market. The price index for real estate in the business district now is 102, he said, compared with 163 in 1929.

* * *

Tax economists have pondered Minnesota's recent decision that out-of-state corporations are subject to the same state income taxes as domestic firms. The state board of tax appeals handed down the decision in the case of Owens-Illinois Glass Co., which employed traveling salesmen but had no licensed sales.

The experts said that under this ruling companies which have no established sales outlet but which commission Minnesota businessmen to handle products or employ traveling salesmen will be subject to taxes on sales in the state.

* * *

A Chicago meeting of the 13 signatory banks of the National Sales Finance Plan, organized to provide coverage for installment financing in 37 states, resulted in dissolving the plan, it was learned. Apparently, the banks had failed to get assurances that the group would not violate anti-trust laws.

* * *

Arrangements for an offering of $20,000,000 in common stock, at $5 a share, have been completed by the Tucker Corp. with Floyd D. Cerf Co., Inc., it was disclosed. Proceeds will be used to finance production of the new Tucker "Torpedo" automobile in the former Dodge-Chicago plant.

* * *

Republic Steel Corp. offered the government $30,000,000 for the $92,000,000 steel mill in South Chicago, now leased by Republic. Another offer of $28,250,000 was made by Philip D. Fitzgerald of a consulting engineer firm, who declined to disclose the group for which he was acting. Kaiser-Frazer Corp. offered to lease the property for five years.

* * *

Speakers at various convention here made such predictions as a "sharp, nasty and short" business recession, a 100% increase in consumer credit in the next few years, and the improbability of the present "business retrenchment" developing into a major depression.

* * *

Prof. L. J. Norton, of the University of Illinois, told the American Meat Institute the recession he predicted would be followed by a period when "we really go to work and make up our accumulated shortages of houses and automobiles."

A. G. Dahlberg, president of the United States Economics Corp., said that despite the huge consumer credit rise, retail sales should level off in 1947 at slightly above this year's totals.

Edward P. Rubin, president of Selected American Shares, admitted that labor difficulties might change the retrenchment into a depression. Many risks in business and security prices now confront the country, and these cannot be disregarded, he said.

Mackey Nominated for Pres. of Coffee & Sugar Ex.

At a meeting of the Nominating Committee of the New York Coffee and Sugar Exchange held on Oct. 7 to consider the nomination of a president to fill the unexpired term caused by the resignation of F. H. Silence on Oct. 2, Chandler A. Mackey was named as nominee to serve until Jan. 22, 1947. Mr. Mackey has previously filled the office of president, serving from 1935 to 1941.

Truth in Politics Act Needed

By ROBERT R. YOUNG*

Chairman, Chesapeake & Ohio Railway Co.

Mr. Young declares that penalties on abuses by government officials are just as necessary as those imposed by our Securities Acts. We should insist on "accountings" for Washington's wastes.

Secretary Snyder's statement that the stockholders in the government, meaning all of us, should be better informed, so that they may assist him in reaching a sound financial policy, is as encouraging as it is interesting.

Robert R. Young

Wall Street, under the Truth in Securities Act, is quite different from the old Wall Street. Business, having found that it pays to be honest, might well insist that Pennsylvania Avenue follow its example.

Our country was started by placing limitations, regulations, and restrictions—not on the people, but on the government; that is what the Constitution is, a comprehensive plan for the regulation of government. But for 175 years now, the politicians have been reversing this wholesome initial process, by taking the limitations off the politicians and putting them on the people.

What we need today is a Truth in Politics Act to match the Truth in Securities Act, clause for clause.

1. If my annual reports and proxies were filled with broken promises and half truths, the Truth in Securities Act would have got me if the Common Law had not.

2. The sources of income of every public servant would make as interesting reading as do those of officers and directors.

3. Is it any less a crime for a Public Bureau or Commission to divert the substance of Peter to *buy the vote of Paul* than it is for some Kruger to convert the assets of a publicly held corporation to personal use?

4. To pretend to seek price stability while quietly encouraging wage increases is, to say the least, not being frank.

5. Taxation should be *direct* where the underprivileged can have a look at it. To cause them to believe that only the rich bear these price spiraling burdens is to deceive them.

A Truth in Politics Act to impose penalties upon such abuses would give us better government just as certainly as the Securities Act has given us better business.

The standards for measuring the honesty of our public servants, who ask us that we trust them with our liberties and our life, certainly cannot be lower than those they themselves have laid down for the custodians of merely our money.

Labor, farmer and capital must take time out from form filling, and the time consuming annoyances of Washington-created scarcities, to insist upon accountings and explanations for the wastes and confusions of Washington.

It is time for all of us *outsiders*—outside the government, I mean—to get off the defenses—to go on the offensive and insist upon a healthier balance of regulation—a little less here and a little more there.

*Remarks by Mr. Young at "Financial World" Annual Awards Banquet, New York, Oct. 4, 1946.

Rothchild & Co. Offers Aviation Press Notes

L. H. Rothschild & Co. on Oct. 9 offered $60,000 of The Aviation Press, Inc. 10-year 6% convertible sinking fund notes due July 2, 1955. The notes, issued in denominations of $100, $500 and $1,000, were priced at 98½ plus accrued interest.

The Aviation Press, Inc., incorporated in the State of New Jersey in 1942, publishes and distributes newspapers, magazines, periodicals and books and provides news services covering aviation and related activities. The corporation owns and publishes "Contact," Aviation's National Newspaper, and a juvenile edition, "Contact Comics."

The notes may be converted into common stock of the corporation, at the option of the holder, at the rate of $3 per share if converted on or before July 2, 1948, $4 per share if converted between July 2, 1948 and July 2, 1949, and $5 per share if converted after July 2, 1949.

Proceeds from the sale of the notes are to be used in liquidating short-term loans and liabilities, and to provide additional working capital.

Until the first part of 1946 "Contac's" subscription list was limited, because of a newsprint shortage, to direct-by-mail subscribers. An intensive subscription campaign is now underway and it is anticipated that the total distribution will reach 50,000 copies per issue within a year.

Dealer-Broker Investment Recommendations and Literature

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

Adams Journal — Monthly bulletin of news and comment on the market — Adams & Co., 231 South La Salle Street, Chicago 4, Ill.

Family-Owned Corporation and **Taxation** — Booklet explaining facilities for financing to provide for inheritance, gift and similar taxes for the family-owned or closely-held corporation — The First Boston Corp., 100 Broadway, New York 5, N. Y.

Gold Mining Shares as a Recession Hedge — Report on outlook for gold mining companies — Delafield & Delafield, 14 Wall Street, New York 5, N. Y.

Insurance Stock Analyzer — Operating results of the first half of 1946 for a representative group of fire and casualty insurance companies — Geyer & Co., Inc., 67 Wall Street, New York 5, N. Y.

Is a Depression Necessary? — Market Study — J. F. Reilly & Co., Inc., 40 Exchange Place, New York 5, N. Y.

Also available are the following: The Price Bubble; When Will World War II End?; Long Term Forecast; Have Listed Companies Superior Management?; Election Day; Executives Tell Us That; Essentials; The Commercial Shearing and Stamping Co.; Buda Company; Barcalo Manufacturing Co.; Doing the Impossible; Common Sense; John Doe Letter; Losses in a Bull Market; Aeronca Aircraft; American Phenolic Corp.; Drico Industrial Corp.; General Machinery Corp.; Golden Crown Mining Co.; Silver Creek Precision Corp.; Stromberg Carlson Preferred; U. S. Sugar; Plastics Materials Corp.

Low Priced Stocks — A card suggesting a group purchase of five low priced listed stocks — John J. O'Brien & Co., 209 South La Salle Street, Chicago 4, Ill.

New York City Banks—Comparison and analysis of 19 New York City banks for the third quarter of 1946—Laird, Bissell & Meeds, 120 Broadway, New York 5, N. Y.

Petroleum Industry — Review of condition and outlook — Hirsch & Co., 25 Broad Street, New York 4, N. Y.

Also available is a study of **International Telephone & Telegraph Corp.**

Trading Opportunities — Suggested rail switches suggested by official estimates of 1946 earnings — Vilas & Hickey, 49 Wall Street, New York 5, N. Y.

Aldens, Inc. — Analytical memorandum — H. Hentz & Co., 60 Beaver Street, New York 4, N. Y.

Also available is the **Fortnightly Investment Letter**, a bulletin of comment on various interesting situations.

American Insulator—Memorandum—Peter Barken, 32 Broadway, New York 4, N. Y.

Argo Oil Corp.—Descriptive circular—Seligman, Lubetkin & Co., Inc., 41 Broad Street, New York 4, N. Y.

Also available are circulars on **Tennessee Products** and **Wellman Engineering.**

Aspinook Corporation—Circular—Ward & Co., 120 Broadway, New York 5, N. Y.

Also available are memoranda on **W. L. Douglas Shoe Co.; Hartford Empire; Lanova Corp.; Mohawk Rubber;** and **Taylor Wharton Iron & Steel; Barcalo; Haloid; American Window Glass; Purolator Products; Upson Corp.; Alabama Mills.**

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

Also available are studies of **Dwight Manufacturing Co.** and **Purolator Products.**

Central Public Utility 5½s of '52 and Consolidated Electric and Gas Pfd. — Comprehensive study and analysis in brochure form—Fred W. Fairman & Co., 208 South La Salle Street, Chicago 4, Ill.

Chefford Master — Analytical report — Peltason, Tenenbaum Co., Landreth Building, St. Louis 2, Mo.

Columbia Gas & Electric Corp. —Analysis — L. F. Rothschild & Co., 120 Broadway, New York 5, N. Y.

Decker Manufacturing Co.—Detailed Analysis—Comstock & Co., 231 South La Salle Street, Chicago 4, Ill.

Also available are analyses of **Hydraulic Press Manufacturing Co.; Long Bell Lumber Co.,** and **Miller Manufacturing Co.**

C. H. Dutton Company—Analysis for dealers only on 66-year old company with interesting prospects—Moreland & Co., Penobscot Building, Detroit 26, Mich.

Federal Water & Gas Corp.—Memorandum—J. G. White & Co., Inc., 37 Wall Street, New York 5, N. Y.

Gruen Watch Co. — Memorandum — Buckley Brothers, 1420 Walnut Street, Philadelphia 2, Pa.

Also available are memoranda on **South Carolina Electric & Gas Co.** and **Standard Stoker Co.**

Greyhound Corporation—Circular—Hicks & Price, 231 South La Salle Street, Chicago 4, Ill.

Also available are memoranda on **The Chicago Corp.** and **The Muter-Co.**

Gulf, Mobile & Ohio Railroad—Analysis—R. H. Johnson & Co., 64 Wall Street, New York 5, N. Y.

Indiana Steel Products Co. — Memorandum on interesting situation — Brailsford & Co., 208 South La Salle Street, Chicago 4, Ill.

Also available is a circular on **Queen Anne Candy Co.**

MacFadden Publications — Circular—C. E. de Willers & Co., 120 Broadway, New York 5, N. Y.

Minnesota Mining and Manufacturing Co. — Analysis of earnings record, financial position and growth potentialities — Kidder, Peabody & Co., 17 Wall Street, New York 5, N. Y.

National Terminals Corporation —Late memorandum for dealers only—Adams & Co., 231 South La Salle Street, Chicago 4, Ill.

New England Public Service Co. — Appraisal of values — Ira Haupt & Co., 111 Broadway, New York 6, N. Y.

Pittsburgh Railways — Memorandum on present status — H. M. Byllesby & Co., Stock Exchange Building, Philadelphia, Pa.

Plomb Tool Co. — Special report — Maxwell, Marshall & Co., 647 South Spring Street, Los Angeles 14, Calif.

Fred B. Prophet Company—Detailed memorandum—De Young, Larson & Tornga, Grand Rapids National Bank Building, Grand Rapids 2, Mich.

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

Rockwell Manufacturing Co.—Analysis—Steiner, Rouse & Co., 25 Broad Street, New York 4, 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.

Serrick Corp. — Analysis — Sills, Minton & Co., Inc., 209 South La Salle Street.

Sheller Manufacturing Corp. — Recent report—**Mercier, McDowell & Dolphyn**, Buhl Building, Detroit 26, Mich.

South Carolina Electric & Gas Co. — Memorandum — G. A. Saxton & Co., Inc., 70 Pine Street, New York 5, N. Y.

Southern Advance Bag & Paper Co.—Report on common stock with reference to possibilities for appreciation and increased income return—Boenning & Co., 1606 Walnut Street, Philadelphia 3, Pa.

Southern Natural Gas Co. — Study — Burnham and Co., 15 Broad Street, New York 5, N. Y.

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

Also available is a circular on **Chicago Hardware Foundry Co.**

Towmotor Corp. — Special memorandum — Walston, Hoffman & Goodwin, 265 Montgomery Street, San Francisco 4, Calif.

Also available is a preliminary report on **White Motor Co.**

Francis I. du Pont Co. Adds Fisher to Staff

Samuel Curtis Fisher has become associated with Francis I. du Pont & Co., 1 Wall Street, New York City, members of the New York Stock Exchange. Mr. Fisher was formerly with Mellon Securities Corp. and Lehman Brothers.

Real Estate Securities

Chanin Building

The Chanin Building First Mortgage 5% Leasehold Bonds, newly out of a reorganization consummated earlier in the year, are attractive from the standpoint of yield (approximately 6% at current market price) and security.

Outstanding in the amount of $5,875,200, the bonds are the obligation of the Lexington Avenue and 42nd Street Corporation, the present owner of the leasehold and office building and are secured by a first mortgage on the leasehold estate occupying the entire block front on the west side of Lexington Avenue, between 41st and 42nd Streets immediately to the south of Grand Central Station and the 56-story office building erected thereon, known as the Chanin Building. The ground is leased from the Manhattan Storage and Warehouse Co. for 21 years to July 1, 1948 at a rental of $383,750 per annum, with an option of four renewals, the first two at 5% of the appraised value of the land but not less than $300,000, and the last two at 5½% of the appraised value of the land, but not less than the amount paid in the last year of the prior renewal period.

The plan of reorganization provided for the best possible treatment of the first mortgage bonds, income being distributed as follows:

From the net income of the property there is first set aside $240,000 in each six-month period ($480,000 for the year) for the payment of 5% fixed interest per annum and the balance of said $240,000 toward bond retirement.

Interest on first mortgage bonds	$302,975.00
First mortgage primary sinking fund	177,025.00
New reserve fund	25,000.00
Second mortgage bond interest	59,250.00
Third mortgage bond interest	25,000.00
Balance to first mortgage sinking fund	213,355.29
Total	$802,605.29

All remaining net income, after provision for a contingency reserve fund (until $150,000 is so accumulated at the rate of $25,000 per annum) and payment of second and third mortgage bond interest, is likewise applied toward the retirement of first mortgage bonds.

The effect of this plan resulted in the distribution of income for the fiscal year ended July 31, 1946 as shown in the accompanying table.

From the above it may be seen that interest requirements of the first mortgage bonds were earned nearly three times and income available for sinking fund on these bonds was equivalent to approximately 7% of the issue.

Philadelphia Exch. Members Make Reports

PHILADELPHIA, PA.—Member firms of the Philadelphia Stock Exchange have submitted reports of their financial condition as of the close of business Sept. 13 in accordance with the request of the Securities and Exchange Commission, it was announced.

Frank E. Baker, Baker, Weeks & Harden, President of the Exchange, following the semi-monthly meeting of the Board of Governors stated: "These statements have been examined by the exchange and all have met the financial requirements of its committee on business conduct as of that date."

Roger Cortesi to Be Auchincloss Partner

Roger Cortesi will become a partner in the New York Stock Exchange firm of Auchincloss, Parker & Redpath, as of Oct. 17. In the past he was with Harriman Ripley & Co. and Brown Harriman & Co., Inc. Mr. Cortesi will make his headquarters at the firm's New York office, 52 Wall Street.

Florio with Cohu & Torrey

NEWARK, N. J.—Cohu & Torrey, members of the New York Stock Exchange, announce that Alfred J. Florio is now associated with them as a representative in their Newark office, 24 Commerce Street.

Chase Bank Honors 25-Year Employees

A dinner in honor of 993 persons now on the staff of the Chase National Bank who have served for 25 years or longer was held in the grand ballroom of the Waldorf Astoria Hotel, Oct. 9. Hosts and speakers at the affair were Winthrop W. Aldrich, Chairman; H. Donald Campbell, Vice-Chairman, and Arthur W. McCain, President of the bank.

In addressing the group, Mr. McCain said that the Chase had found the five-day week satisfactory during the summer months this year and stated that the Chase management is favorably disposed toward the five-day week on a year-round basis, provided the necessary permissive legislation is passed at the next session of the New York State Legislature. Under the existing statutes, banks are permitted to close on Saturdays only during the summer months of June, July, August and September.

Mr. McCain also announced that the annual vacation period for employees in the 25-year group will be four weeks instead of three weeks, and that the vacation for those with 10 years of service will be lengthened from two to three weeks. Men and women with 25 years or more of service comprise more than 15% of the entire Chase personnel. Almost half of the people in the organization have been with the bank ten years or longer.

A large number of the 25-year veterans at the dinner had with them engraved gold watches which were commemorative gifts from the bank. Members of the staff were invited during the year to express their preferences for pocket or wrist watches, sterling silver flatware, silver trays, or gold pen and pencil sets. Watches were by far the most popular choice.

The longest service record among present staff members is held by August H. Tiemeyer, Assistant Manager of the Produce Exchange Branch, 25 Broadway, with 51 years in the bank. Among the women members, Miss Isabel McCosker, Manager of the Chase Safe Deposit Company branch at 115 Broadway, is first in length of service. About 90 new members became eligible to join the 25-year service group during 1946.

Joseph Overton Heads Municipal Bond Dept. Of Nat'l City of Cleve.

CLEVELAND, OHIO—The National City Bank of Cleveland announces the appointment of Joseph A. Overton as manager of the Municipal Bond Department. Mr. Overton in the past was with Edward Lowber Stokes, Pask & Walbridge, and Jenks, Gwynee & Co. in New York City.

Form Swenson & Co.

PALM BEACH, FLA.—Edward F. Swenson, member of the New York Stock Exchange, has formed Edward F. Swenson & Co., with offices at 271 South County Road, in partnership with Lester A. Corya. Mr. Swenson was formerly an individual broker, with offices in New York City and Palm Beach. Mr. Corya was associated with him.

Millaw Company Formed

DENVER, COLO.—The Millaw Company has been formed with offices at 120 West 13th Avenue to engage in the securities business. Officers are D. L. Mills, president; Bryce Morris, vice-president; and Ben A. Law, secretary-treasurer.

Reviews Employment for August

Civilian Production Administrator John D. Small reports business employment rise in August was offset by seasonal decline of 810,000 in agricultural workers. Calls for greater productivity of currently employed to combat inflation.

In his monthly report covering the month of August, John D. Small, Civilian Production Administrator, in commenting on the employment situation, notes that although unemployment has dropped to 2,000,000 the lowest point since December, 1945, there is need for increased productivity of currently employed labor to bring about higher levels of production and thus combat inflation. Regarding employment conditions Mr. Small reported:

J. D. Small

Non-agricultural employment increased 640,000 in August to establish another all-time peak of 48.8 million. This increase, coming on top of an increase of 1.4 million in non-agricultural employment in July makes the total increase for the two months more than 2,000,000, the largest increase for any two months on record. The increase in non-agricultural employment now amounts to more than 4 million since January and more than 6 million since September 1945. Most of the increase has been made up of returning veterans. In addition, unemployment has declined and the number of women employed has increased 600,000 during the two months. July is the second month in succession since V-J Day in which the employment of women in non-agricultural activities has increased.

The seasonal decline of 810,000 in agricultural employment in August offset the increased employment in non-agricultural activities with the result that total employment for the month declined slightly to 58.0 million from 58.1 million in July.

Unemployment Drops to 2 Million

A decline of 230,000 brought unemployment in August down to about 2 million, the lowest figure since December, 1945, and 700,000 below the peak of 2.7 million reached in March, 1946. This decline, in the face of the virtual completion of the demobilization of the armed services, indicates the rapid manner in which the labor resources released by the end of the war have been virtually exhausted by industry and trade. Increased productivity of currently employed labor is needed now to bring about higher levels of production and thus combat inflation.

Wall Street Union Asks Stock Exchange for 25% Increase in Wages and Seven-Hour Day

The United Financial Employees is seeking a new contract with the NYSE to replace the one which was due to expire next Tuesday but which has already been extended a month. Three meetings of the negotiators have already been held and another is scheduled for tomorrow when the Exchange will reply to the union, stating its ability or inability to meet the specific points raised. UFE has applied to the State Labor Board for an election to determine collective bargaining agent for the employees of A. M. Kidder & Co.

The United Financial Employees is seeking a new contract with the New York Stock Exchange to replace the one which was due to expire next Tuesday but which has already been extended a month to give the negotiators for both sides the chance to come to a friendly settlement of terms that will be satisfactory to both parties.

Under the terms of the present contract, if the union and the Exchange can not agree on a new contract by Oct. 15, the present contract is automatically extended a month on condition that any agreement reached will be retroactive to Oct. 15.

Three meetings of the negotiators have been held at which the union's complete case, including demands for a 25% increase in wages and a seven-hour day, has been presented to the Exchange. Another meeting is scheduled for tomorrow when the Exchange, in turn, will reply to the union, stating its ability or inability to meet the specific points raised.

Undaunted by its failure to win collective bargaining rights for the employees of three Wall Street firms—Harris, Upham & Co., Carl M. Loeb, Rhoades & Co., and Empire Trust Co.—the union now has applied to the State Labor Board for an election at A. M. Kidder & Co. The State Labor Board has reported that this case is still in the informal hearing stage.

Hearings were also closed by Trial Examiner John McCann of the State Labor Board yesterday in the union's move to have the results of the election at Harris, Upham & Co. set aside on the grounds of alleged unfair labor practices by that firm. Hearings in this case opened last Thursday. Before this case goes before the State Labor Board itself for a decision, briefs must be filed by the opposing parties.

Both the union and Harris, Upham & Co. attorneys have until ten days after completion of the stenographic report of the hearings to file their briefs.

With Dean Witter & Co.

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF.—D. Forrest Greene and George W. Miller, Jr. have become affiliated with Dean Witter & Co., 45 Montgomery Street, members of the New York and San Francisco Stock Exchanges.

Walter Pryor, Warden Stillwell Are With McDonald & Co.

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, OHIO—Walter J. Pryor, Jr. and Warden G. Stillwell have become associated with McDonald & Co., Union Commerce Building.

Henn With Paine, Webber

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, OHIO—Richard L. Henn has rejoined the staff of Paine, Webber, Jackson & Curtis, Union Commerce Buliding, after serving in the armed forces.

Robt. Wagner in Houston

HOUSTON, TEXAS—Robert Wagner is engaging in the securities business from offices at 1714 Bolsover Road.

100% Margins and the Market Break

The October issue of the "Monthly Bank Letter" of the National City Bank of New York carries an article on the relation of stock market prices and credit, in which it is pointed out that although the recent break in prices may not be due to forced liquidation of margined accounts, as in past years, credit operations are still a factor in security speculation. Says the article:

In any survey of general conditions prompted by the stock market decline, one question is the extent to which people have got themselves sewed up in debt. For, while credit is a highly useful facility when properly employed, too much credit (debt) can be a serious weakness, greatly intensifying and prolonging periods of liquidation. One of the favorable features of the present situation is that the bull market has been financed to such a large extent by cash and that secured loans have been so low for a period of active speculation.

It has been a good many years, in fact, since the stock market has been seriously vulnerable to forced selling precipitated by declines in stock prices themselves and calling of loans. Cash trading on the stock exchange was a common practice for many investors even prior to the war. For trading after Jan. 21, 1946, the Board of Governors of the Federal Reserve System, under the Securities Exchange Act of 1934, set margin requirements for listed stocks at 100%. The Board had in July of last year raised the requirement from 50 to 75%.

The 100% margin requirement was designed to curb the practice of buying stocks with borrowed money by forcing buyers, especially of shares listed on securities exchanges, to pay for them in full. Much has been written and said to the effect that 100% margins create thin markets for securities, and it is obvious that they limit the buying power that investors and speculators can put into the market when prices, after declines, look cheap. On the other hand, the rule of cash on the barrelhead undoubtedly shut off some credit buying on the rise earlier in the year and thereby helped to avoid forced liquidation later.

The 100% margin rule, however, has by no means eliminated borrowing against securities. Bank loans for business as well as for miscellaneous purposes often have the added protection of security collateral. Moreover, these are specific exemptions from the margin rule; notably, banks may lend on bond collateral without restriction.

While it is not possible to determine precisely the amount of credit involved in borrowings ostensibly for other purposes, but actually for the purpose of purchasing or carrying listed stocks, such amount can hardly be large enough to alter significantly the general picture as shown in the reported loans on securities.

Security Loans Chiefly Against Governments

The authorized exemptions together with undisturbed old margin accounts, explain the $2.9 billion loans "for the purpose of purchasing or carrying" securities shown on the latest statement of the weekly reporting member banks in leading cities. These loans reached a peak of nearly $6 billion in December, 1945, following the close of the Victory Loan drive, and have since been declining. No less than two-thirds of the present total consists of loans to carry U. S. Government obligations; only one-third, or a little under one billion, is for carrying other securities, including not only stocks but also corporate and municipal bonds.

Loans for purchasing or carrying stock in "old accounts" (stocks held on margin prior to Jan. 21) have been whittled down as holders have sold shares held in these accounts, and for the accounts that have not been disturbed the abundant margin protection already provided in January was widened in the subsequent rising market.

Among loans on securities are those to carry new issues in process of distribution. While there was a substantial volume of new underwriting in process at the time of the stock market decline, the appearance of market indigestion during the summer had slowed the rate of new security offerings, and underwriting mar-

(Continued on page 1834)

Morgan Stanley Group Quickly Sells $75,000,000 Pacific Tel & Tel Debentures

An underwriting group headed by Morgan Stanley & Co. formally offered to the public Oct. 9 $75,000,000 principal amount of The Pacific Telephone & Telegraph Co. 40-year 2⅞% debentures, due Oct. 1, 1986. The debentures were priced at 103.25 and accrued interest, to yield 2.74% to maturity. The securities were awarded to the group at competitive bidding Oct. 8 on a bid of 102.6199. Within three hours after the competitive sale, the issue was over-subscribed and the subscription books closed. Proceeds from the sale of the debentures will be used to reimburse in part the company's treasury for uncapitalized expenditures made for extensions, additions and improvements to its plant and those of its subsidiaries. This having been done, the company will repay advances from American Telephone and Telegraph Company. Any balance will be used for further extensions and improvements.

The debentures are redeemable at any time at prices ranging from 106.25%, if redeemed on or before Sept. 30, 1951, to par if redeemed on or after Oct. 1, 1981.

Giving effect to the financing the company will have outstanding, in addition to the debentures offered, $75,000,000 2¾ debentures, due Dec. 1, 1985, 820,000 shares of 6% cumulative preferred stock, $100 par value, and 2,461,250 shares of common stock, $100 par value.

Together with its two wholly-owned subsidiaries, Southern California Telephone Co. and Bell Telephone Company of Nevada, the company furnishes communication services, chiefly telephone service, in 620 exchange areas in California, Nevada, Oregon and Washington. On June 30, 1946, the three companies owned and operated 2,909,097 telephones, of which 1,750,538 were owned by the parent company.

J. W. Gould Admits Reichwein

J. W. Gould & Co., 120 Broadway, New York City, has admitted Joseph J. Reichwein to partnership in the firm. Mr. Reichwein has been with hte firm for some time as cashier.

New ABA President Outlines Plans

C. W. Bailey in inaugural address proposes regional group management conferences and improvement in rural banking. Urges closer correspondent bank relationships. Says there will be new work to do by Committees, Commissions and Councils in ABA organization.

C. W. Bailey, President of the First National Bank of Clarksville, Tenn., on Sept. 25 was elected President of the American Bankers Association at 72nd Annual Convention held at the Stevens Hotel, Chicago. In his inaugural address, delivered the same day, Mr. Bailey urged the members to take advantage of the services offered by the executives and staff of the Association in their New York, Washington and Chicago offices. He also pointed out that members of the various committees, commissions and councils will have "work to do," and in mentioning specific proposals, he recommended area bank management conferences, improvement of rural banking, and closer correspondent relationships between banks.

C. W. Bailey

The text of Mr. Bailey's inaugural address follows:

Today I am mindful of the compliment you have paid in electing me to the Presidency of the American Bankers Association. Likewise I am thoughtful of the responsibility which you have placed on me. In the same vein, I am aware of the opportunity which is presented to all of us to make this year in American banking one marked by progress in every phase of management. To meet the challenge of that opportunity will be our goal.

As we look forward to the activities of the year, I would like, first of all, to remind you that there are so very many ways in which the executives and staff of the Association in New York, in Washington and here in Chicago, can be of great help to you in charting your course and solving your problems. Times does not permit even a limited outline. But during the year we plan to present to you a factual demonstration of what is going on in these offices that is calculated to help you along the road to the best in banking.

During the two years which have elapsed since last we met here in Chicago you may have lost some of your intimate contact with those who have served you in the American Bankers Association. No general convention was held and you were thoughtful of worldwide problems which engaged you in many of those months.

Now, here we are back again in convention. We are getting closer together. We are renewing old relationships. We look forward to years of accomplishment.

During the year it is our plan, if hotel and other facilities are available, to have a group of area bank management conferences. To these we will bring members of the official staff, and we hope that you will attend and confer with them and give them an opportunity to contribute something, out of their broad experience, that will aid you in operating the best banks of which you are capable. These will be working conferences and they will be brief. If you approve of the idea and have some suggestions to offer, you should be prompt in making your ideas known. There are many topics which we can discuss together at these conferences which will be of great benefit.

Because I have for nearly forty-three years been a country banker, I have a very natural ambition that the country banks throughout this nation shall measure up in every way in meeting the banking needs of the trade areas which they serve. It has been most gratifying to observe the very marked progress in management which has been made by many of these country banks, and I shall look to all of them throughout this year for redoubled effort and evidences of accomplishment. A well balanced rural banking structure is essential to a sound national economy.

In the attainment of this ideal in rural banking, those who serve as correspondent banks can be most helpful. Their experience is very broad. Much that they have garnered from that experience will aid the rural banker in making plans and developing a policy of successful management.

So I appeal for a closer correspondent bank relationship—one that is built and maintained on a spirit of mutual confidence that will endure.

Those of you who will be asked to serve on Committees, Commissions, or Councils will be charged with a responsibility of performance. No one appreciates more than I what marvelous talent is available in the membership of the Association to fill these appointments. Observation over a period of years has developed a very high estimate of the worth of this voluntary talent in serving the needs of the membership. Many days of valuable time have been given willingly and generously, often without reimbursement for out-of-pocket expense. Those who have served in the past have set high standards for those who will serve in the future. If and when you are called on, I appeal to you that you respond in the same spirit as your predecessors. There will be work to do.

A year hence I want to look back with you over twelve months of great progress in every level of banking. That goal can only be reached through individual accomplishment. In its attainment I pledge you the best of which I am capable, and I shall hope for the same from you. May I have that?

If there are times when we do not agree, we must counsel and not criticize.

Fund and Bank End First Annual Meeting

Hugh Dalton, British Chancellor of Exchequer, replaces Secretary Snyder as Chairman of both institutions. Italy, Turkey, Syria and Lebanon admitted, but Russia still abstains from membership. Britain given leeway for altering value of pound.

The first annual meeting of the Boards of Governors of the International Monetary Fund and the International Bank for Reconstruction and Rehabilitation ended a seven day session in Washington on October 3, with the election of Hugh Dalton, Chancellor of the Exchequer of Great Britain and the representative of that country, as Chairman for the next session to be called in London a year hence. Mr. Dalton replaces Secretary of the Treasury John W. Snyder, who was named Chairman of both Boards of Governors at the organization meeting in Savannah, Ga., last March.

New Members Admitted

Early in its proceedings, the Governors of the International Monetary Fund admitted to membership Italy, Turkey, Syria and Lebanon. Italy is the first enemy nation admitted. The only country opposing its admittance was Yugoslavia. Admission of the four new members to the Monetary Fund now brings to 43 the number of nations entitled to draw on its resources and bound by its obligations for relaxing exchange restrictions. As a result of additions to membership and the increase in the quotas of France and Paraguay the capital of the International Monetary Fund was increased to $7.7 billions. The governors fixed the subscription quotas for the new members as $180,000,000 for Italy, $43,000,000 for Turkey, $6,500,000 for Syria and $4,500,000 for Lebanon.

Britain Wins Point

The governors of the International Fund also approved a resolution providing for depreciation of a nation's currency, when this appeared necessary to correct "unemployment of a chronic or persistent character," caused by an unfavorable balance of trade. This action was urged by Hugh Dalton, British representative of the Bank and Fund.

It was maintained, however, that in granting the right of a nation to maintain "full employment" within the scope of the Fund's authority to permit major revaluations to correct a "fundamental disequilibrium," the Fund Governors had the right to pass upon the propriety of the measures proposed to be taken.

"I am happy to take notice of the interpretative declaration now made by the executive directors on the subject of full employment," Mr. Dalton declared. "The Government of the United Kingdom has stated its intention to maintain full employment and has requested an interpretation of the articles of agreement as to whether steps necessary to protect a member from unemployment of a chronic or persistent character, arising from pressure on its balance of payments, shall be measures necessary to correct a fundamental disequilibrium. This declaration, although made in response to a request by the United Kingdom, will also, I am sure, be of great interest to all other governments who share our firm intention to maintain full employment for our own people."

Russia Abstains From Membership

Although Russia was a party to the Bretton Woods Conference which set up both the Fund and the Bank, and has had observers at the subsequent proceedings, it has not yet formally joined either of the two institutions. The final date limiting the period when Russia can decide whether it will become a member has been set at December 31st of this year, and the Governors of the institutions have decided not to use any persuasive measures to get this one of the "Big Five" to join.

World Bank to Have an Advisory Board

The International Bank's governors adopted a resolution to set up an advisory board, with representatives of industry, finance labor, commerce, agriculture, science and the general public.

This board would have a Chairman who, according to the Bank, "should be a personality of general eminence." The council would meet annually at least three months before the annual meeting of the Governors and would advise the executives who would include the council's recommendation in their annual report.

In the regulations adopted by the Bank, provision is made for special meetings of the board of governors. The governors are required to meet annually by the articles of agreement, but the new rules require the directors to call a special meeting whenever requested by five bank member nations or by members having at least one-fourth of the total voting power.

Cobb Is Adv. Mgr. of Distributors Group

The appointment of William T. Cobb as advertising manager of Distributors Group, Inc., 63 Wall Street, New York City has been announced. Mr. Cobb will supervise public relations, advertising and production of sales literature for the company, distributors of Group Securities, Inc., one of the largest mutual investment funds in the country.

William T. Cobb

Mr. Cobb formerly was a Vice-President of Albert Frank-Guenther Law, advertising, and prior to that time copy director of the agency. He has also served as an editorial writer on "The Wall Street Journal" and editorial director of Cambridge Associates, Boston.

Exec. Committee of Inv. Companies Ass'n

The National Association of Investment Companies has announced the election to its Executive Committee of Herbert R. Anderson, Executive Vice-President, Group Securities, Inc.; O. Kelley Anderson, President, Consolidated Investment Trust; Harry A. Arthur, President, Blue Ridge Corporation; Charles F. Eaton, Jr., President, Eaton & Howard Incorporated; R. E. Macgregor, President, Investors Syndicate; Cyril J. C. Quinn, Vice-President, Tri-Continental Corporation; and S. L. Sholley, President, Keystone Custodian Funds, Inc.

Those continuing to serve on the Committee are Hugh Bullock, President, Calvin Bullock; Paul C. Cabot, President, State Street Investment Corporation; R. Sherrard Elliot, Jr., Vice-President, The Equity Corporation; Merrill Griswold, Chairman, Massachusetts Investors Trust; James H. Orr, President, Railway and Light Securities Company; Harry I. Prankard, 2nd, President, American Business Shares, Inc.; Dorsey Richardson, Vice-President, The Lehman Corporation; and Hardwick Stires, Partner, Scudder, Stevens & Clark.

John M. Sheffey continues as Executive Secretary of the Association.

Wm. Byrne Partner in Campbell, Phelps & Co.

William D. Byrne has been made a partner of Campbell, Phelps & Co., 70 Pine Street, New York City. Prior to the war Mr. Byrne was associated with Shields & Co. and subsequently with H. C. Wainwright & Co. as manager of the municipal bond department of the New York office.

Banks Look Forward

By FRANK C. RATHJE*
Retiring President, American Bankers Association
President, Chicago City Bank & Trust Co.

Retiring ABA President asserts war's end has brought neither peace nor economic stability and wartime problems remain. Says instability makes it extremely hazardous to make long-term commitments, since current price levels and incomes may decline again. Criticizes Federal Reserve recommendation for increased credit controls and attacks credit expansion policies of government lending agencies. Sees danger to normal credit structure in government guarantees and expresses concern regarding future dollar stability. Holds profit incentive essential to economic development and concludes, that despite difficulties, economy is fundamentally sound.

The past year has been full of rapidly moving events for the banks and the economy. During the year, I had the opportunity to meet with many bankers throughout the nation. I have been deeply impressed by the spirit which I have observed among bankers in every section of the country. They demonstrate an interest in, and an alertness to, the problems that are important, not only to the banks, but to all segments of the economic activity in the nation.

Frank C. Rathje

I found, in attending State conventions, that the programs of those meetings were devoted to both a discussion of problems that were local in nature, and to problems relating to the national economy. This is a reflection of a basic political philosophy in the United States—the dual system of government. By the use of State and local governmental units to deal with local problems, full advantage is secured of local initiative. This is a source of self-reliance, and provides a medium for freedom of thought and expression. Likewise, a national government exists to deal with problems of a national and international scope. This dual system is an element of strength in our form of government, and in our own organization as well. In every State convention, there was demonstrated a keen understanding of of local problems and a full recognition of the economic developments which only a national organization is in a position to treat with effectively.

ABA Activities

Your national organization is well prepared to carry out its responsibilities. The broad range of activities carried on by its many commissions and committees, and the services performed by its staff, cannot be adequately described. It is to be realized that the American Bankers Association is fundamentally an educational institution, devoted to improving the technique of banking, and to training the personnel of its member banks to a higher degree of efficiency in serving the people of this nation in an important phase of our national economy.

Rapidly changing conditions, not only in our domestic monetary affairs, but internationally as well, make it an ever greater necessity that we equip ourselves with that knowledge which will enable us to render competent service in all phases of the banking business.

In the fall of 1945, the national government was in the process of demobilizing 12 million men and women who had given to the nation their heroic services. More than a year has passed since the end of the war. Those months have brought neither peace nor economic stability. We have found again, to our disappointment, that wars do not solve all problems. In some instances, wars aggravate existing difficulties and create new misunderstandings. What we tried to achieve at so great a cost in the recent war, was an assurance that we would have the opportunity to solve international problems by the use of democratic principles and procedures. To us, that right was so valuable that its establishment was worth any expenditure of effort which was required to create it. It is to be hoped that we may now be permitted to solve those problems by peaceful means, yet not to a point where we will sacrifice the dignity or the integrity of this great nation.

Your association planned early to help the veteran readjust himself in his business, in his home, on his farm, and in his community. We realized that members of the armed forces had, throughout their service, remained civilians at heart, and their cherished desire was to resume once more, the ways of peace.

As one of the expressions of the nation's gratitude for the sacrifices made by the veterans, the Servicemen's Readjustment Act was passed in June, 1944. In spite of the commendable objectives of that law, in its actual operation, it was found to be unworkable. Accordingly, changes were enacted in December 1945, with the purpose of remedying the existing defects. Unquestionably, these amendments represented an improvement of the original law.

Wartime Problems Remain

However, there yet remain problems which should be a cause for deep concern to all who are sincerely interested in the welfare of both the veteran and the economy. The present phase of economic activity may be one in which it is extremely hazardous to enter into long-term debt commitments. Currently, employment, prices, and incomes are high. Throughout our history, market values have fluctuated. If the past is a guide to the future, there is a probability that current levels of prices and incomes will decline again, at least to stable values. If this occurs, present commitments entered into by the veteran may constitute for him a burdensome obligation. It is the responsibility of all bankers, that we lend the veteran not only capital for sound ventures, but make generous contribution to him of our experience. The veteran needs advice and counsel. In many cases, competent guidance will be of greater value to him than the assumption of a debt, for whatever purpose created, which he may find an undue burden in the years to come.

Credit Needs of Small Business

When the war ended, much was said of the credit needs of small business concerns. We recognized that the war had caused the discontinuance of thousands of small business units for its duration. We also recognized, that with the return of peace, the opportunity must be provided for small business units to secure the financial means to reestablish these enterprises. Provision was made for the extension of adequate credit to these units by the use of the lending facilities of individual banks, by the extension of correspondent relationships and by the creation of credit groups. As the sound credit needs of American business, large and small, are provided, we are building a credit structure within the banking system. That credit structure should be carefully developed, so that it will not be vulnerable to normal fluctuations in prices, incomes, and in the level of business activity.

Credit Expansion and Government Lending

In the last report of the Board of Governors of the Federal Reserve System, additional powers are requested for the purpose of controlling credit expansion. The bankers of the nation are not convinced of the desirability or the necessity of this legislation, as it is recommended by the Federal Reserve Board. Legislation of this type would obstruct banking services. It should be avoided until such a time as the absolute necessity therefor prevails and is fully recognized.

In this connection, it is disturbing to observe the inconsistency between the various governmental agencies with respect to credit policies. While the Federal Reserve Board is requesting additional power to control credit expansion, other governmental agencies are engaged in vigorous efforts to expand credit.

The Patman Bill, establishing an emergency housing program, which in many respects has laudable objectives, provides for insurance by the Federal Housing Administration of mortgages bearing a ratio of 90% to the current necessary costs of construction. Construction costs have risen since 1939 by 65%. If we experience future fluctuations in costs similar to those which have occurred in the past, the mortgages based upon current levels of costs of construtcion will prove to be unsound.

The Wagner-Ellender-Taft bill is not designed to meet the present housing shortage. It is alleged to be a long range housing program. Your association made a careful analysis of this bill and testified against it. It was not reported out of the House Committee considering it. In our study, we found most of its provisions not only unnecessary, but highly inflationary.

This bill provides for insurance by the Federal Housing Administration of mortgages bearing a ratio of 95% to appraised value. In the years ahead it can result in $60 to $80 billions in new mortgages, with such mortgages having a final maturity date of 32 years. When we realize that the increase in the mortgage structure during the decade of the 1920's was $20 billions, one is prone to be deeply concerned about the destiny of the potential mortgage structure that would be developed under this bill.

There is, at the present time, ample mortgage credit available at reasonable rates. The present lack of new housing is due to the shortages of materials and the high costs of construction, and not to the lack of mortgage money.

Another type of credit stimulation by abnormal processes is represented by the Reconstruction Finance Corporation's blanket participation program. The stimulus to credit expansion given by this program is unnecessary and untimely. The banks, at the present time, have sufficient resources to meet any demand for credit required by American business of all types. An aggressive policy of credit expansion, at present price levels, by a governmental agency, is to invite the danger of speculation and overexpansion.

Many of the government lending activities were initiated in the early 1930's, when employment and prices were low, with fear a dominant influence in lending activities.

These government lending agencies may be said to have made a useful contribution in aiding business to rehabilitate its productive activity in those early reconstruction years. Because those agencies proved to be politically popular, there is a threat that they will be continued during a period when employment, prices, and general business activity are at a very high level, and when ample bank credit is available.

Danger of Government Guarantees

It is to be known that the banks of the nation are now building a normal credit structure based upon sound credit risks. To add to that normal credit structure a large volume of credits based upon guarantees and insurance provided by the Federal government, or its several agencies, constitutes a danger to our general economy of grave proportions.

Of a more serious nature is the provision of the Reconstruction Finance Corporation pronouncement, which results in the virtual abolishment of the limitation upon the amount a bank may loan to a single borrower. A bank can, without criticism of the supervisory authorities, make a loan four times its statutory lending limit, with the Reconstruction Finance Corporation guaranteeing the excess. This violates a tradition of long standing which has proved of great value to the soundness of the banking system. The destruction of this fundamental principle of banking is to be regretted. One of our past presidents has devoted much time and thought to this activity. He will address this convention on that subject tomorrow, at greater length.

The Future Price Level

Traveling throughout the nation, I found that the problem of greatest concern to bankers was that of the future of the price level. Examples of different types of price rises in the countries throughout the world during the period between the close of the first World War, and the beginning of World War II, are numerous. Of course, we are in no danger of the German monetary experience which culminated in the extreme currency inflation of 1924. The American dollar is the strongest man-made force in the world today, and will continue to be so. This is not to say, however, that its purchasing power may not fluctuate from time to time. After the first World War, prices in the United States rose and declined. These fluctuations were based upon changes in the supply of goods available and the demand therefor, with the monetary unit based upon the statutory price of gold essentially stable.

The example of the French franc, however, presents a different picture. At the outbreak of World War I, the French franc was valued at 19.3c in terms of gold, or approximately five francs to one American dollar. By 1933 its value had declined to a point where it was worth 15 francs to the dollar. As a consequence of seven successive statutory devaluations, the most recent in December, 1945, the franc has declined in value to an official level of 84/100 of one cent, or 119 francs to one American dollar. This is an example of a monetary deterioration, which was not dominated by variations in the supply of, and demand for, goods, but by a permanent decline in the purchasing power of a monetary unit.

In the United States, since 1933, significant changes have taken

*An address by Mr. Rathje before the 72nd Annual Convention of the American Bankers Association, Chicago, Ill., Sept. 24, 1946.

place in our monetary affairs, the effects of which we have not yet fully learned.

One: In March, 1933, the United States abandoned the gold standard.

Two: In January of 1934, the price of gold was increased from $20.67 an ounce, to $35.00 an ounce.

Three: The volume of money in circulation has increased from $5½ billions, in 1933, to over $28 billions currently.

Four: During the same period of time, bank deposits have increased from $37 billions, to $150 billions.

Five: The required reserve of gold certificates against Federal Reserve notes in circulation has been reduced from 40%, to 25%.

Six: Likewise, the required gold certificate reserve against Federal Reserve Bank deposits has been decreased from 35%, to 25%.

Seven: Wage levels have increased since 1939 by 60%.

The problem which is uppermost in the minds of many students of the economy at the present time, can best be expressed in two questions:

First: Are the increases in the price levels that have taken place due to temporary scarcities in supply and a temporarily increased worldwide demand? or

Second: Are the price rises due to fundamental changes in our monetary affairs since 1933?

Either the economists who predict a "boom and a bust" are right, or we have moved our price level to a permanently higher plateau. It is possible, also, that the changes in the price level which we are currently experiencing represent a combination of both factors, and that both are exerting their force.

Stability of Dollar a Crucial Problem

The rapidly moving developments which continue to take place, make it impossible to reach a sound conclusion on these questions. Nevertheless, this is one of the most crucial problems which faces the American business man and banker alike. It is one, which must be continuously studied to follow the trend that is developed. Unquestionably, the activity of labor unions will play a dominating role in affecting the future level of prices. It has come to be generally recognized that the costs of production are the pivot around which the price level must move. Labor costs represent a major portion of the costs of production. It was the sizable wage increases given to labor unions in the early part of this year which represented the main force that broke the price line which the Administration said it was seeking to maintain.

In the United States, there were nine million unemployed in 1939. This was due, in part, to the fact that wage levels had risen during the 1930's at a faster rate than labor's productivity. As a result, the volume of profitable operations was so curtailed that large numbers were unemployed. There is general agreement that the demands of labor were a major cause of the progressive impairment of the value of the French franc. Reports of the economic conditions in England point to a situation in which labor groups during the 30's took such an increasing proportion of the rewards of industry, and exercised such a large measure of control over industrial operations, that the incentives of industrial owners to improve and modernize buildings and equipment were impaired. This had serious consequences for the British export markets. As early as 1938, England began to lose leadership in those lines of foreign trade in which she had enjoyed world supremacy for a long period of years.

Labor should recognize the crucial role which it plays in the economic life of the nation, and exercise with a high sense of responsibility the power which has come into its hands. Without the opportunity for reasonable profits, the incentive to improve business operations and techniques in this country will likewise be impaired.

The great opportunity which the United States has for continued world leadership in its industrial and economic development, depends in a large measure, upon the incentives provided to industry to carry on the technical progress which has been a source of strength for this nation. Sufficient incentives must be provided to all elements in the productive process, to function at maximum efficiency. Labor, too, must recognize that it has a stake in the free enterprise system, and in the philosophy in government which our forefathers established.

Our Economy Fundamentally Sound

The American economy is fundamentally sound. Our productive potential is the greatest in the world. It is true that we have problems at the present time, but we have had problems at the end of every war. The difficulties we face are of greater magnitude in this instance because the proportion of our national resources devoted to this war effort was much higher, and the world-wide devastation wrought by the war was much greater. However, if the victory which we achieved at the tremendous cost of lives, materials, and financial resources, has purchased for us the opportunity to solve these problems through democratic processes, then with faith, courage, and devotion to duty, our problems can be solved in a way which will justify an ever greater confidence in our American way of life.

I still have great faith in the future of America.

Fiscal Tasks Ahead

By HON. JOHN W. SNYDER*
Secretary of the Treasury

Secretary Snyder, in acknowledging great aid afforded by banks to Treasury during and following the War, calls for continued cooperation in fiscal tasks ahead. Points out primary effort on fiscal front is to achieve a balanced budget, and asserts "we have done better than most people expected." Says Government economies are put in force wherever feasible, but expenditures, particularly for defense and debt service, remain high. Holds present tax levels must be maintained and interest rates remain low, and cites redemptions of short-term Govt. notes and campaigns to increase Savings Bonds sales as evidence of a policy of debt reduction to offset monetary inflation.

It is a genuine pleasure for me to be here today to talk with the bankers of America. I feel myself to be among colleagues and, if I may say so, among friends. This is by no means the first meeting of the American Bankers Association I have been privileged to attend. But it is the first I have been privileged to address in an official capacity as Secretary of the Treasury.

John W. Snyder

I welcome this opportunity for two reasons: First, I want to thank the bankers for the magnificent service they have rendered the country; and second, I want to talk about some important matters that are of mutual interest.

On the first score, this meeting seems a fitting occasion for me to express again my personal appreciation for the help and cooperation which I have received from the banking profession, during my tours of duty as Federal Loan Administrator, as Director of War Mobilization and Reconversion, and as Secretary of the Treasury since my appointment to that office.

During the past two months, in particular, I have met with the Committee on Government Borrowing and the Savings Bond Committee of your Association, and with groups representing the savings banks, the insurance companies, and other types of financial institutions. These meetings have provided an opportunity for a frank interchange of ideas. They have again confirmed my long-held conviction that the financial community is able and willing to look beyond its immediate self-interest, and to consider the financial problems of the country from the point of view of the well-being of the whole people.

*An address by Secretary Snyder before the 72nd Annual Convention of the American Bankers Association, Chicago, Ill., Sept. 24, 1946.

Cooperation of Banks and the Treasury

The tradition of cooperation between the banking system and the Treasury is one of long standing. But I need go back no further than the war to illustrate how well it has worked.

During the war, the banks threw themselves wholeheartedly into the sale of United States securities. They gave generously of the time of their executives and their staffs and their facilities in the war loan campaigns and in the continuous sale of savings bonds. They cooperated with industrial corporations in the establishment and maintenance of payroll savings plans. In addition, the magnificent job which they did in setting up a special system of banking for handling ration coupons contributed in no small measure to the ability of the government to carry through its vast program of wartime rationing.

This cooperation of the banking system with the government is continuing in the postwar period. Almost every bank has a sales desk for United States savings bonds, which is manned by bank employees at no cost to the government. Bankers are heavily represented throughout the state organizations in the present savings bond sales program, just as they were in the days of the war loans. Many large industrial corporations have continued the payroll savings plan into the postwar period primarily because of the influence, economic vision, and public spiritedness of the bankers on their boards of directors.

I want you to know that this cooperation is deeply appreciated in the Treasury. Indeed, it seems to me a condition indispensable to the economic health of the nation. The government's need of assistance from the banks has certainly not ended with the termination of the war. You know the magnitude of the fiscal problems which still confront us. We shall continue to need your help in solving these problems. You know the immense difficulties of collecting a large volume of taxes. I am sure we shall continue to need, for a considerable period of time, the tax depositary facilities you have provided us during the war. It is a great benefit to the Treasury to have tax collections paid through deposits in local banks.

Now, as for the terminal leave bonds which will soon be in the hands of 13 million veterans of the war. You know that there will be a lot of problems involved. One of them will concern redemption facilities. We shall need your help in this connection. We are counting upon you bankers to provide our veterans with the same fine service on their terminal leave bonds when they mature as you are now offering them on the billions of dollars of savings bonds they own.

All of this is, of course, in addition to the work that you are doing for us on savings bonds which is so important to the success of that program.

Just a little over a year ago we celebrated the end of the war. Today we have largely converted from the ways of war to the ways of peace and this conversion has been so rapid and so successful that our levels of production, income, and employment are all closely comparable to the high levels we reached during total war.

It was no small part that the bankers played in this rapid and successful reconversion. If this spirit and this performance can continue, it will ease materially the difficult problems that all of us still must face.

I want to speak to you today about two important subjects. One of these is the need for balancing the budget. The other is the public debt and the problems of managing it. These subjects are interrelated and, in fact, one common policy should be the rule for both.

Achieving A Balanced Budget

In the present economic environment, *the Federal Government should direct its primary effort on the fiscal front to achieving a balanced budget. Better yet, it should strive to achieve a substantial surplus of taxes over expenditures to apply to debt reduction.* These are the views I expressed the first day I entered the Treasury; and they have the full support of the President.

Early in August, the President released revised budget estimates for the fiscal year 1947, estimating the budget deficit at $1,900,000,000. However, considering that there are certain noncash expenditures included in the budget, *the government, in current cash transactions, will take in more money this year than it will spend.*

Thus, for example, most of the terminal leave pay—that is, over $2,000,000,000 of it—will not be paid in cash, but rather in terminal leave bonds. Also, the interest accruing on savings bonds which amounts to about $700,000,000 for the fiscal year, is treated as a budgetary expenditure, but it will actually go to increase the value of the bonds, and will not be paid out in cash until the bonds are redeemed. In addition, interest earned by government trust funds—which, in the aggregate, amounts to about $600,000,000—represents a noncash transaction. As a result of these and other items, there will be what we may call a cash operating surplus of almost $3,000,000,000.

The noncash items have to be paid when due, but it is helpful that they do not involve cash outlays to the public at the present time.

While none of us likes the prospective budget deficit of $1,900,000,000, yet it is a great improvement over the estimate made last January. At that time, the deficit was estimated at $4,500,000,000 for this fiscal year. Many of us had hoped that the improvement would be even greater. But a tremendous change has nevertheless taken place from the deficit of $21,000,000,000 in the last fiscal year, and $54,000,000,000 in fiscal 1945. Naturally there should be an improvement, for the war, as far as the gunfire is concerned, is over. *But, frankly, we have actually done much better than most people expected could be done in the first year after the cessation of hostilities.*

You know, it is easy to sit back and say that government expenditures ought to be cut sharply to balance the budget. It is much harder, however, to put your finger on where the cuts ought to be made. There are people, unencumbered by the responsibilities of office, who blandly say "reduce government spending by such and such per cent right across the board." They never get very specific about it. But a butchering job like that would create more troubles than it would solve. It was recently suggested, for example, that no less than two million persons be fired from the Federal pay roll,—as though essential government agencies and services could be carried on without personnel. *Yet I think it will be interesting news to you when I tell you that the Federal Government has already released,* *nearly one million civilian employees since VJ-Day. And we have done this without increasing unemployment in the land or hurting the conduct of government business.* It is worth noting, too, for the sake of realism, that total Federal expenditures for the operation of the Legislative and Judicial Branches and for administration of the Executive Branch aside from military and veterans activities is about $2,000,000,000 for the fiscal year 1947 or around 5% of all Federal expenditures. We want, of course, to reduce these expenses as much as possible, but obviously any cuts large enough to have any significant effect must come elsewhere.

Public works is an area in which cuts in expenditures are often urged during times of inflationary pressures. This counsel is sound, but total Federal expenditures for nonmilitary public works are estimated at only a little over $1,000,000,000 for the present fiscal year. This includes the badly needed housing program.

Interest on the Debt

One of the larger areas of government expenditures is that composed of interest on the public debt, refunds of taxes, and veterans' benefits. Expenditures for these purposes are estimated at $13,000,000,000 this year. This is made up of $5,000,000,000 of interest on the public debt, $6,200,000,000 of veterans' benefits, and $1,900,000,000 of tax refunds. There is little prospect of any substantial reduction in these expenditures since they represent commitments already made in accordance with Congressional mandates.

Expenditures for international finance are estimated at $4,200,000,000. These expenditures are investments for the most part, but the figure does not make any allowance for future repayments and recoveries. International finance represents about 10% of total expenditures; and, while this is a lot of money, there is no doubt that these are wise outlays in the interest of our international responsibilities.

National Defense Expenditures

The new estimate for national defense for this fiscal year is $18,500,000,000 in a total budget of $41,500,000,000. The January budget estimate was about $15,000,000,000. There are two principal reasons for the increase. One of these is the payment of terminal leave to enlisted men—amounting to nearly $2,500,000,000—most of which, as I have said, will be paid in terminal leave bonds. The other amounts to more than $500,000,000 for the increase in pay of the armed forces provided for in legislation recently enacted.

The determination of the amount or the necessity of particular expenditures does not lie within the province of the Treasury Department. I am not in a position to say whether national defense expenditures could be reduced without impairing our national security. I certainly want a strong America. I certainly do not want to repeat the mistake we made after the first World War. *But I do want to emphasize that the size of this group of expenditures singles it out for special attention in looking for areas in which to reduce expenditures—keeping in mind, of course, that budgetary considerations must be secondary in the determination of our needs for national defense.*

Let me assure you that there is no man in this country more anxious than President Truman to accomplish the major objective of balancing the budget and reducing the public debt. This, the President feels, can be done without sacrifice of the forward looking policy he so persistently advocates. The President believes our great hope for the future lies in the vitality of our system of individual enterprise and in the enormous capacity of our country to produce and consume.

Turning from expenditures to receipts, tax collections continue to run at a high level. As a result of the rapid reconversion from war to peacetime production, our net receipts in this fiscal year are estimated at almost $40,000,000,000. This is only about $7,000,000,000 less than the peak collections reached during the war.

Present Taxes to Be Maintained

The maintenance of the present level of taxes has served to reduce the deficit sharply. I believe, and I think that the Congress and the American people believe, that for our common good *our present tax levels must be maintained for some time.* This is inescapable if we are to achieve a balanced budget and a surplus to be used to reduce the public debt. I know you will agree that the debt should be cut as much as possible in exceptionally prosperous times such as these; and, as bankers, you will agree also, *I think, that it is pure fantasy, if not plain demagogy, to talk of tax reduction and debt reduction in the same breath.*

In the tax field, it is the role of the Treasury to make recommendations. What the law is, will depend upon the action of Congress.

Management of Debt

Let us turn now to the management of the public debt. I use the term in an economic sense, rather than in a narrow, bookkeeping sense.

The public debt today is so big that it dwarfs all other debts in comparison. This debt is of vital significance to banks—and other investors, too—because government securities are now one of their largest asset items.

Fifty-five per cent of the total assets of all insured commercial banks are in United States securities. For mutual savings banks, Federal securities constitute nearly two-thirds of all assets; and for insurance companies, the ratio is almost one-half. For non-financial corporations, about one-half of their liquid assets consists of Federal securities. Individuals also hold a large volume of United States securities — in fact, hold twice as many as all life insurance companies and mutual savings banks combined.

So, it is no wonder that the management of the public debt involves many issues. No wonder that there are many ideas as to what should be done. Frank discussion of these ideas—competition among them for survival—is a healthy manifestation of the democratic process in operation.

One aspect of public debt management which is frequently discussed has to do with the size of the short-term debt. The distribution of the debt by maturity classes is primarily a function of the distribution of ownership—that is to say, securities are tailored to the needs of the various investor classes as much as possible. Thus, short-term securities go to the banks and to business organizations. Almost half of bank holdings of securities are due or callable in less than one year. In the case of nonfinancial corporations, four-fifths of United States Government security holdings are either presentable on demand or fall due within one year.

In contrast, longer-term securities are designed for long-term savings investors, such as insurance companies, savings banks, and individuals. Three-fourths of the Federal securities held by insurance companies and savings banks are not due or callable for more than ten years. In the case of individuals, more than two-thirds of United States securities held are savings bonds, which were designed to avoid the risks of market fluctuations which proved so disastrous to the small holder of bonds after World War I.

Accordingly, this tailoring of securities to meet investors' needs sets the maturity structure almost automatically; and has resulted in a substantial volume of short-term securities. It may be noted in passing that the same idea was followed by the British and Canadian Governments in their war financing.

On the question of the short-term debt, I wonder if you know the extent of the Treasury's program of debt reduction in recent months. *From February 28 through September 1, the Treasury reduced the public debt by about $14,000,000,000 as a result of the heavy pay-offs made on maturities of marketable securities each month.* Preliminary figures indicate that commercial banks and Federal Reserve Banks reduced their holdings of Federal securities by about seven-eighths of the total debt reduction during the period. This is an example of public debt management tied in to the fiscal program of the government with the objective of aiding the control of inflationary forces.

Now let's spend a minute on the savings bond program. In my opinion, this program is of prime importance to our postwar financing and is vital on the fiscal front at the present time. I do not believe that it would be helpful under present conditions to promote an all-out bond selling campaign like the War Loans or the Victory Loan. It is possible, however, to do a day-to-day job selling bonds in order to maintain and extend the payroll savings plan and to sell the American people on the idea of investing in savings bonds for their own good. *Savings bond promotion actually is doing this. Sales this fiscal year*

(Continued on page 1813)

The Banker Looks Ahead

By W. RANDOLPH BURGESS*
Vice-Chairman, National City Bank of New York
Ex-President, American Bankers Association

Noting the United States has a program of political and economic international cooperation Mr. Burgess calls attention to frustrations of this policy and points out dependence of economic recovery on permitting revival of individual initiative and enterprise rather than on political action. Sees inflation and restoration of monetary stability as a great problem of reconstruction, and present struggle between Totalitarianism and Democracy as handicaps to recovery. Holds this struggle is also apparent in U. S. and is interfering with world cooperation. Urges we be strong in our preparedness and diplomacy, and put our own house in order.

Turning our minds back less than two years, it is astonishing how in that brief period your and my sensations have changed about the great outside world. It seems only a few months ago that we looked abroad with a shudder as our own sons were being forced back in the German bulge on the Belgian-French line, and as we waited impatiently for some word from them. When the tide of victory turned with V-E Day, we still listened with apprehension for news from the Far East.

W. R. Burgess

Then with double victory came the great surge of relief and of hope, in which we saw with our mind's eye a new world in which evil had been conquered and peace would reign. It would be a world united — "one world." In this hopeful day the United Nations Organization was born; Bretton Woods was approved; the stage was set for a better day for all mankind.

We are now in the third phase, a phase of bitter disillusionment. We look abroad with troubled eyes as Yugoslavia shoots down American planes, and in conference after conference the road to a lasting peace is blocked at every turn. Meanwhile many countries of Europe and Asia are floundering in an economic morass because they have no recognized leadership and no sound principles of government on which economic life can be built.

Such a change in sentiment in a short span of months makes one mentally dizzy. In the face of this record we find ourselves wishing there were some means by which the United States might be shut off from the outside wicked world, but we know there is none. Fortunately, this time the country has refused as a nation to take this defeatist course.

*An address by Mr. Burgess before the 72nd annual convention of the American Bankers Association, Chicago, Ill., Sept. 25, 1946.

The Bankers' Special Interest

By reason of his special training and point of view, the banker has inevitably focused his attention on certain phases of this great international movement. In the war we concentrated upon financing the great national offensive. We sold billions of dollars of war bonds to our customers, and with our own buying underwrote the success of the great war loans. We kept operating smoothly the great financial machinery essential to war. Quietly and little noted by the public or the press, the banks ran the complicated mechanism of handling ration coupons, which we knew as "ration banking." We did these things understaffed, because our people had poured forth both into the fighting services and to man the prodigious supply lines.

With the coming of peace, bankers as individuals and in our Association focused their attention first on plans for national reconversion and the care of veterans, and second on the means for international economic cooperation. This Association laid before its membership and the Congress comprehensive reports and proposals which were sound and had, I believe, substantial influence.

In that connection, I am moved to say a word about Bretton Woods. That was the major issue in our relation with these problems during the year of my presidency of the Association. Our position, in brief, was that we approved the principles of economic cooperation sought in the Bretton Woods proposals, but we believed that as drawn they were unnecessarily complicated, impractical, and expensive. We proposed and recommended to the Congress that instead of two institutions, a Bank and a Fund, the whole task could be performed by the International Bank alone with greater effectiveness and a substantial economy in effort and funds. This major revision was not adopted. It was, in fact, difficult for the Congress to do so, because the Executive Departments had already gone so far in making definitive agreements, that leaders in both parties felt that the Congress could not make a major alteration without running the danger of seeming to repudiate one of the first international agreements and delaying action which was presented to them as of immediate and pressing importance. That was a year and a half ago.

The matter came before our Congress at a time when, as I have said, there was a great surge of sentiment for international collaboration, a wholesome surge, I believe, but one that was at the time a little blind and uncritical. The Congress did adopt a number of specific recommendations made by the American Bankers Association which I believe will prove to be important safeguards, especially for the creation of the National Advisory Council to coordinate United States foreign lending policy. The Bretton Woods machinery, as adopted, is however, far more cumbersome and unwieldy and expensive than was necessary.

The Bank for Reconstruction and Development, which we supported, is now getting organized under the able leadership of Eugene Meyer, and will be in operation in a few months. Let me remind you that the bank is not a relief organization. Its statutes provide that it is to make loans only after a competent committee has submitted a written report recommending the project after careful study of its merits, and with due regard to the prospects that the borrower will be in a position to meet his obligations. The bank is to "act prudently." The United States has veto power over any loan to be financed in this market. The bank can make loans, moreover, only after it is assured that borrowing cannot be done through commercial channels under reasonable conditions. Thus the bank is organized to deal with borderline cases which are expected to be good loans but which involve a little too much risk for private lending. The obligations of the bank are guaranteed up to a little over three billion dollars by the United States Government, and beyond that by other governments. Discussions are now beginning as to the marketing of these obligations and changes in laws and regulations necessary to qualify them for purchase by institutions or trust funds. That is a problem in which we bankers can be helpful by familiarizing ourselves with the facts.

The International Monetary Fund, as we pointed out in our testimony before the Congress, will tread on newer and less proven ground. It is likely to encounter, among others, the difficulty that UNRRA is now experiencing with respect to Yugoslavia, for with the Fund just as in the case of UNRRA, the United States puts its money into a pool under international control and may find its money being used by countries pursuing policies we do not like. The Fund is designed for a different kind of world from that in which we find ourselves.

One of the proposals of the Bankers Association adopted by the Congress was for a full periodical review of the operations of both Bank and Fund. Our responsibility as bankers is, I believe, first, now that we have these organizations, to give our aid to make them effective, and second, to study their operations and be ready to recommend from time to time such changes as may be desirable.

Looked at from abroad and from long range, of course, the most important thing about all this was not the details of the machinery but the fact that the United States after World War II has decided on a program of political and economic international cooperation. This is shown in our partnership in the United Nations Organization, in the Bretton Woods institutions, the British Financial Agreement, and in other efforts at international collaboration, in contrast with our action as to the League of Nations. Instead of trying to collect war debts, we have cancelled over $40 billion lend-lease obligations. In addition, we have given away huge sums through UNRRA and other agencies to relieve distress and destitution and made substantial loans through the Export-Import Bank. While we made large foreign loans after World War I through both government and private channels, we lent too much and not carefully enough, and stopped lending too suddenly. Whether our present even more generous policies are right will not be known for some time to come.

Problems of Today

Having set our faces steadily and with good conscience toward international cooperation, we Americans find ourselves brought up short. We poured relief money into Yugoslavia and we receive in return open hostility. We shipped billions of dollars worth of lend-lease goods to Russia, and today we find it seemingly impossible to reach agreements with her in setting up cooperative international machinery which will help to keep the peace and aid in world recovery.

The crucible in which the substance of cooperation is being tried out is Germany, where the four great powers are in contact and in the midst of experiments in working together. I visited Berlin a few weeks ago and found it a discouraging place from the point of view of future success in international cooperation. For example, the Potsdam Agreement calls for the economic unification of Germany, a necessity for German self-support. Besides ourselves only the British have been ready to carry out this agreement for unification. This is one of many matters in which commonsense cooperation between nations has been unnecessarily difficult. Some progress has been made by the unremitting and patient efforts of our representatives, but discouragingly little. Partly as a consequence, in the past fiscal year it cost the United States $200 million to feed our zone in Germany. In other words, instead of receiving reparations from Germany, we were in effect paying them.

In the face of this and so many other evidences of the same sort, it would become easy to throw up one's hands in despair and give up the effort. But there is something else going on in Europe, in China, and even in Japan, which would be easy to overlook, but which ought to give us hope.

Let me illustrate what I mean in the case of France. From the reports in the papers I had expected that France would present a fairly hopeless economic picture. The political power in France is divided between the Communists and Socialists on one hand, and the clerical party, the M. R. P., on the other. The economic policy is, therefore, undetermined and drifting. The general report was that the French people, after their years of enslavement, were drifting also, and that the economic life of the country was at a perilously low ebb.

In Paris I found that this was apparently not so. The country was indeed divided politically, and its governmental policies were uncertain, ineffective, and discouraging to enterprise. The country is suffering from inflation. Yet the encouraging fact—

(Continued on page 1810)

Nationalization vs Free Enterprise

By FRED I. KENT*
Director, Bankers Trust Co., New York

Mr. Kent points to our material progress as evidence of superiority of private enterprise under government checks and balances. Lays blame for waste during war on disruption in balance of the three departments of our government due to "the cracking-up of power of Congress in the '30's." Holds unwise extension of government activities hampers reconversion and is fostering nationalization. Asserts private enterprise makes available people's combined intelligence and creates checks and balances through independent individual action. Contrasts conditions under nationalization and free enterprise and depicts the "American way."

Every normal person can produce more than he requires for consumption given the opportunity. Some 300 years ago in this country there were certain areas in Massachusetts and Virginia where property rights were not recognized. Therefore, no incentive existed to induce anyone to produce more than he consumed. Life was dull and drab, a mere existence, and progress toward better living did not prevail.

Fred I. Kent

Then property rights were established in those areas, and immediately the whole picture changed. There was great incentive to produce as surpluses could be saved and utilized to better the conditions of living and increase contentment and happiness. The mental inertia of the people was replaced by constructive activity and all benefited, even the ne'er-do-well.

Then, after the Revolutionary War came the Constitution and the Bill of Rights, which put into form the principles upon which the American people were to build their nation. Freedom of enterprise now grew in leaps and bounds, and the amazing picture of a prosperous nation was placed before the world by the developments of the United States of America. A few references only are needed to show what a people living under the freedoms thus established can accomplish toward building an effective national life.[1]

Of our 130-odd million people, 71 millions hold life insurance policies. There are 50.4 million savings depositors and 15 million people who hold shares of stock. savings depositors and 15 millions of people who hold shares of stock. All of these interests arose from savings made by the people that directly and indirectly have built up our great banks, businesses, and industries.

Then there are other things which help to tell the story of what the American people have built for themselves. In 1900, 1,250,000 families in the United States had telephones. In 1945-46, there were 27,867,000 families which had telephones. Continuing to speak strictly from the standpoint of families in the make-up of our people, 8,000,000 had automobiles in 1900 and 25,600,000 in 1945-46. Of radios, in 1922, 60,000 families had them and at present 30,500,000, nearly a quarter of the population of the United States. In 1926, 4,000,000 families had vacuum cleaners; in 1946, 18,700,000. In 1926, 2,900,000 families had electric washing machines and in 1946, 17,217,000. In 1927, 66,000 families had electric refrigerators; in 1946, 19,720,000.

In 1925 the average radio cost $200; in 1939, $35. In 1923 the cost of an automobile was $2,100 that in 1939 could be had for $800. Refrigerators which cost $260 in 1923 were $150 in 1939.

Then came war.

It is men who are concerned with all of these developments, and it is the acts of men which determine their movements.

Must Have Checks on Administrative Powers

History has proved beyond denial that the longest periods of progress, exclusive of upsets from outside sources, have occurred when the systems under which men have governed themselves or have been governed by others have provided checks against the excesses that men are led into when they are entrusted with powers that, if not controlled, vitiate and then terminate progress for a period. During times when there have been effective checks upon the over-expansion of the efforts of men to control others, successful continuing progress has been possible for important periods.

It was because history so clearly showed this to be true that our forefathers who drew up the Constitution of the United States and the Bill of Rights set up our processes of government so that there would be checks upon those entrusted with the welfare of the people. To accomplish this, they separated the legislative, judicial, and administrative powers of government in such a manner as to prevent the runaway of any one branch of government through the assumption of powers which could not be controlled by the others.

As long as the people insisted upon our government living up to the Constitution, they were afforded the greatest protection from governmental abuses that has ever been devised. This is more clearly seen when we apply it to what has happened in this country since 1933. The tremendous deterioration of sound government processes that has prevailed since that time can be definitely traced to the moment when Congress abandoned its responsibilities in large part as the legislative power of the country to the executive branch of the government, which further resulted in destroying the independence of the judicial arm of the government.

Even during the war, a time when quick decisions had to be made that were very far-reaching in their effect upon the people, there was such a disruption in the proper balance of the three functions of our government that enormous waste in the wealth of the country occurred. This could have been prevented without jeopardizing our war effort, and if it had been prevented, would unquestionably have made such effort more effective. This unfortunate development was due to the cracking-up of the power of Congress during the 1930's.

Effects of Congressional Weakness

The terrible results to our country and to our people that followed the destruction of Constitutional processes by our government could not have occurred if Congress had insisted upon controlling legislation, the executive department had been prohibited through such position of Congress from assuming autocratic powers, and the balancing force of the judicial department had not been destroyed.

The serious effect upon the United States can be seen during the years of peace that prevailed between 1933 and 1939 when the war started in Europe, throughout the war period from 1939 to V-J Day in 1945, and during the time since V-J Day up to the present when we should have had peace but instead, even in our own country, have been faced with bitter internal war.

The depression of the 1930's was aggravated and extended by unwise government activities that could not have prevailed if the Congress, the executive department, and the judicial branches of the government had functioned Constitutionally. During the war the excessive destruction of the wealth of the country need not have occurred, and enormous savings could have been made without interference with the marvelous production job which was carried out by American industry. Further, since V-J Day reconversion could have proceeded at an amazing speed that would have enabled recovery from the effects of the physical losses of the war to take place with such rapidity that the physical hardships of the people would have disappeared like mist before the wind. In fact, the correction of these physical conditions would have moved forward with such growing force that it could have allayed much of the mental unrest that is still so violent throughout the world because of the powerful moral position the United States might have had.

Nationalization Movement Hampering Recovery

The destructive forms of government that are now hampering recovery in all of the war-torn nations need not have prevailed because they are clearly the result of physical hardships that have led peoples where great destruction has taken place to turn from the slow-sure methods of recovery open to them to the confusion and chaos certain to follow the inauguration of methods of government procedure under which the people sell their freedom for false promises of quick recovery along lines that have always failed and always will fail.

It is due to such causes that the urge for nationalization of banking and industry has spread throughout Europe and many other countries of the world. Nationalization is favored by those who wish to obtain the power for government that lies in such control of industry. Further, it is advocated by those who are inclined to be envious or jealous of entrepreneurs and have so little understanding of business and industrial processes that they can not see the fallacy of striving to operate them in the interest of the people by bureaucracies. There are positive reasons why protection to the people under the nationalization of industry can not be as great as under private enterprise.

The first great and all-conclusive reason against nationalization, regardless of other factors, is that which led to the formation of our Constitution that has just been discussed.

As man is constituted, the greatest accomplishment and comfort for the human race demands that there be checks upon his power in government, in business, in industry, and in his social life.

Advantages of Private Industry

Private industry under proper government regulations provides such checks. Nationalization destroys them. Then man must depend upon the ability of a few for his needs instead of upon the combined intelligence of all the people, and he is subject to the unrestrained motives of his rulers for his social existence.

Under private enterprise, men can proceed in the development of business, banking, and industry through the exercise of the full force of the ability that lies within their individuality except that they must recognize the rights of all. The power to require such recognition lies with government and can be provided through wise and just laws. The combination, therefore, of private enterprise and government regulation is necessary to the protection of the people.

Nationalization of business and industry affords the people no such protection. Neither does it make available to them the individual forces that arise from the intelligence of the multitude of persons who constitute the nation. Under nationalization, men in government itself determine how they shall run the industries. There is no check upon those in government of the same nature that government can exercise upon private industry for the protection of the people. In both cases, men play the parts allotted them. Under private industry, their judgments must be good on a high average or they will be superseded. Stockholders must receive profits as they constitute an income upon which they live or expand their business.

All through business structures, whether they may be banking, industrial, or others, checks are provided to control inefficiency and dishonesty, or lack of ability, and all of these checks are superchecked by government which, through laws that it has the power to provide, can, under their administration, furnish such protection as the people require. If government is not competent to create laws effective for this purpose, it certainly should not be entrusted with the operation of the industries on which the people depend for their very existence.

Nationalization vs. Private Enterprise

It would seem well here to make a direct comparison of some of the conditions that follow production under nationalization and under private enterprise, even at the expense of some repetition.

1

Under Nationalization — Competition does not exist; consequently, there is no incentive to produce: (a) better goods, (b) cheaper goods, (c) new styles, (d) goods of greater utility, (e) goods that meet buyers' desires, (f) goods at lowering prices, (g) increasing volume.

Under Private Enterprise With Government Regulation — Competition with other enterprises makes for cheaper processes of production, for variation in styles, for improvements in serviceability, and for more useful gadgets and greater production.

2

Under Nationalization — Cost of goods produced under bureaucracies must be and always is greater than under private enterprise as elimination of profit is more than offset as time goes on by static developments and red tape.

Under Private Enterprise With Government Regulation—Cost of goods tends downward to meet competition and buyers' pocketbooks.

3

Under Nationalization—Buyers can only obtain what is produced for them by the will and whims of government men. Management can develop static production that buyers must take or leave.

Under Private Enterprise With Government Regulation — Industry must take note of buyers' desires in order to hold their markets. Management for its own benefit must strive to the full extent of its ability to meet buyers' wants at the least possible cost in the best products.

4

Under Nationalization — Where deficits in production occur, buyers pay for what they buy, but all taxpayers help pay the cost whether they are buyers of the particular goods or not. Therefore, taxpayers make part payment of goods produced for others that they may not desire or require or that they cannot afford. Taxpayers have no option and must pay their share.

Under Private Enterprise With Government Regulation — Buyers of goods pay for what they buy, and they determine what they will buy based on their desires and needs and their income. All citizens have the option of deciding as to whether they buy certain goods or not, regardless of the business success of producers.

5

Under Nationalization — Management can remain when incompetent. There are no stockholders to intervene to require reorganization. Political forces ignore inefficiency in high degree.

Under Private Enterprise With Government Regulation — Management can only last while successful. If incompetent, it must be superseded. Stockholders are not satisfied without income.

6

Under Nationalization—Production is on the basis of layers of authority, but such authority is largely of the negative type and must be so because of politics. By the "negative type" is meant that authority to make changes in methods of procedure or in meeting emergencies does not exist except in the form of prohibitions that can only be released by authorities in higher layers, which may have to proceed before release to the top layer. Those in the top layer are political appointees. They measure their answers by political atmospheres.

Under Private Enterprise With

(Continued on page 1807)

*An address by Mr. Kent before the Savings Division of the American Bankers Association 72nd Annual Convention, Chicago, Sept. 23, 1946.

[1] Figures from reports of National Industrial Conference Board.

Banks and Small Business

By ROBERT M. HANES*
Chairman, Small Business Credit Commission, ABA
President, Wachovia Bank & Trust Co., Winston-Salem, N. C.

Prominent banker recounts activities of ABA Small Business Credit Commission which was set up primarily to combat making small business a political issue and preventing creation of small business credit agency. Cites volume of loans made by banks to small business as evidence no government credit agency is needed and attacks Reconstruction Finance Corporation for instituting its 75% automatic guarantee of loans. Points out such guarantee not only encourages loose lending but threatens continuation of private banks. Lists reasons for opposition to government guaranteed loans.

Copyrighted - Harris & Ewing
Robert M. Hanes

The dynamic drive which is the outstanding characteristic of our country arises out of the thousands of institutions of all sizes which in the aggregate make up what we call the American Way of Life. These institutions, small and large, are found in every field of activity — in religion, in education, in publishing, in banking, in agriculture, in general business. A spirit of competition pervades them all, gives zest and vitality to all their activities. Each achieves a kind of personality or identity of its own when it renders a distinctive service to the public. Respect and profit alike come to these institutions, not because of their size but by reason of worthwhile products or services they may offer. The American is not awed by size. He admires any organization which achieves progress through performance.

Over the years small firms become larger ones. On the other hand, some small organizations remain small. But they still play their important part in the social and economic life of the country. In America, size alone neither makes nor breaks the standing of institutions, whether they be in education, banking, business, or in any other field of activity. Competent management is most often the determining factor in the life of an organization.

World War II proved again the validity of the American Way. The military materials and services which this country produced in such an astounding manner resulted from small and large units working together, to the end that our allies were helped and our enemies defeated. All our institutions were enrolled in the service of the nation — churches, schools, colleges, the press, agriculture, business and banks.

In most other countries their economic systems are dominated by a few large business institutions and banks. Not so in America. Our economic life is still predominantly made up of the small unit. There are 3,000,000 business units in this country, 90% of which are small businesses. In nearly all foreign countries banking consists of a few large banks with many branches. Some of these foreign systems have now become state owned and controlled. We have large branch banking systems too, but American banking still rests on the foundation of the small bank locally owned and controlled. It will continue to be free from government ownership as long as we can maintain these banks doing a banking business on their own responsibility, free from undue government competition on the one hand and on the other removed from government guarantee or subsidy. Through the years banking has served small business and small farmers. They have helped each other to produce goods and services. This team work has made possible a nation great in war and great in peace.

Politics and Small Business

Only in the last decade have some politicians seriously tried to make small business a political issue. Small business and politics do not mix. Responsible small businessmen's organizations know this. They have resisted the "do-good" politicians. These organizations have time and again called on government to maintain fairness in the administration of the laws governing competition and monopolies. They know that special favors from government must eventually be paid for by loss of the control of the management of their business units. I commend these small business organizations for their courage and foresight because they have consistently refused to be persuaded by the sugar-coated words of those politicians who have offered them pity and easy government credit.

Small business is against monopoly in the field of credit. Especially is it opposed to government credit monopoly. Small business wants its credit institutions to be competitive, serviceable, and free from government ownership. Neither does it want monopoly in the suppliers of goods and materials. Furthermore, it is against monopoly in labor — a monopoly where a few so-called leaders who seem to be beyond the reaches of the law can make or break the flow of goods.

In spite of these expressed views on the part of small business, bills began to appear in Congress about 10 years ago to create small business credit corporations with government capital. In the last decade some 300 pieces of legislation have been introduced about small business — most of them having to do with setting up some new credit gadget under government sponsorship. Each measure tried to outdo the other in its generosity with respect to the amount of money offered and the terms and conditions by which it might be obtained. Again, I congratulate the responsible voice of small business as they have opposed these measures one after the other.

Most of the politicians who sponsored these bills said that banks were not doing a job in extending credit. A wave of criticism developed against banks and their credit practices 10 years ago. Only a few years before that they had been condemned for extending too much credit and were accused of bringing on the depression by virtue of the over-extension of bank credit. But by 1936 and 1937 banks were held up to public scorn by some politicians because they were said to be too niggardly. In fact, they were even accused of creating unemployment because they did not lend enough money.

Many of these proposals for new government credit agencies were laughed out of the court of public opinion because they were so ludicrous. Others only received favorable comment. A few reached the stage of Congressional hearings.

During this period the American Bankers Association concluded that the only way to stop the flow of unfounded criticism was to make available the facts about bank credit and small business as it existed in the 30's. At great expense these facts were secured from five thousand banks over a period of two years. Reports were requested on the amount of bank lending every six months during that time. Such facts had never before been assembled. The results spoke for themselves. They revealed that these 5,000 banks, or about one-third of all the banks, were making about 24 million loans a year aggregating $39 billion, and that the average size of the business loan was $1,680. Twenty-four million loans of an average size of $1,680! That demonstrated that the banks were taking care of small business.

These facts were presented to committees of Congress by representatives of both small banks and large banks who not only gave Congress the picture of what was being done by banking as a whole but who also contributed the records of their own institutions and told how business and industry were being served in their own local communities.

What Happened?

The bill with which we were then dealing died in committee. The press changed its editorial policy from one of criticism to one of praise. Politicians quit condemning banks on account of their credit practices. They concluded that they could make no political capital out of such criticism in the light of the facts. Banks have never been so free from criticism of their lending services as they have been since that time.

War Years

Then came the war. Manpower, production, and finance became the watchwords of the hour. The bankers realizing their duty immediately set about to meet their responsibilities in credit for war production. Then an interesting legislative event took place. The politicians who had failed to establish their government banks for small business credit a few years before took the old bill down from the shelf, dusted it off, added a few war features to it, and gave their gadget a new title. They called their revised product "The Smaller War Plants Corporation." The bill passed without opposition. The ABA did not oppose it. We accepted it as a war measure. But we insisted that it have a limited life and that in no case should it continue beyond the end of the war.

At first this corporation was run well. While it did not make many loans, it did a good job for a while in helping a number of plants secure war contracts. During these early years of the corporation it was managed by men who knew business, finance, and production problems. As the war progressed to a point where it was certain that the Allies would win, the inevitable happened to this government bank. It fell into the hands of bureaucrats.

The last chairman of the corporation was an ex-Congressman who had been defeated in election by the people of his district. Thus, this "lame duck" took over the management of the Smaller War Plants Corporation. Then our troubles began. He used a new technique. He did not condemn banks. In fact he praised them for what they had done for small business during the war. He said, however, the war would soon be over and that when that time came, the demand for credit on the part of small business would be so great the banks would not be able to do the job alone. Therefore, he argued, they should have the assistance of this corporation which would take over a major portion of all the risks and let the banks have the lion's share of the profits. Here was a new technique on the part of bureaucracy in dealing with banks. He did not condemn us. He loved us. Many editorial writers praised him for his stand. His policy was not to kick the life out of us, but to hug us to death. Either way you die—eventually.

Private enterprise which does not assume risks has no right to profit and hence no right to live. Ours is a loss system as well as a profit system. Competent management knows it will have to experience losses if it is entitled to profit. However, in the latter stages of the war the gospel was preached that Uncle Sam could assume the risks of the banking business and permit chartered banks to take the profits. No doctrine quite so silly had ever before been enunciated.

Since the bureaucrats were using a new technique in attack, we had to evolve new weapons of offense and defense in our own behalf. At the 1943 annual convention of the ABA, a resolution was adopted opposing the continuance into peace time of wartime guarantees of commercial loans, and characterizing such guarantees as not only unnecessary but contrary to sound financial policy and the best interests of the American economy. To give effect to the spirit of this resolution, the ABA Executive Council several months later created the Small Business Credit Commission which promptly evolved an appropriate program of action.

Small Business Credit Commission

This commission, consisting of 30 members from all sections of the country and from all sizes and kinds of banks, addressed itself to the following objectives:

1. To help banks convert from wartime lending procedures to peacetime production loans.
2. To stimulate the organization of small business departments in large banks not already operating such departments.
3. To revitalize the correspondent banking system for peacetime purposes.
4. To assist banks with plans by means of which they might, while the war was still on, determine what were the prospective needs of their communities both with respect to established businesses and new businesses which might be in prospect of forming.
5. To assist in the formation of local credit groups which would participate in the making of loans made by individual banks or together with their correspondents.
6. To keep in touch with developments in Washington regarding the interests of small business.

All material emanating from the commission urged that banks in considering loans put the accent on competence to the end that any man or firm, large or small, of character and capacity, might get bank credit to facilitate the production of peacetime goods and services.

Work of the Commission

Since its organization the members of the commission have worked diligently, carrying out the mandates of the ABA. Representatives of the commission have visited every section of the country twice in the past 30 months. State bankers associations and the Association of Reserve City Bankers have cooperated in every way. At the suggestion of the commission many city correspondent banks have held meetings of their

(Continued on page 1812)

*An address by Mr. Hanes before the 72nd Annual Convention of American Bankers Association, Chicago, Ill., Sept. 25, 1946.

Capitalism—Its Promise and Problems

By PAUL HOFFMAN*

President, Studebaker Corporation
Chairman, Committee for Economic Development

Leading industrialist calls attention to frontal and flank attacks on capitalism, and asserts that defense lies not in capitalism's accomplishments, but in further action to provide increasing opportunities for more people. Holds American economy has been dynamic and productive, and at same time, highly unstable, and says aim should be to reduce instability and to enhance dynamism. Extols research as aid in progress, and points out important role of government in our economy. Sees need for reconstructed tax system, for competition and promotion of new and small business and for private international trading as well as action to counteract depressions and automatically control credit. Favors search for new products and services and regulation of employment.

Before discussing the problems confronting the capitalistic system, I should like to present to you my views as to the hope it holds for all of us here in America. I believe that the next quarter of a century is vibrant with promise. Before presenting my forecasts — which you might be inclined to consider too optimistic — I should like to remind you that in the early part of 1942 the Committee for Economic Development declared in a booklet entitled "Target for Peace" that a postwar goal of from 53 to 56 million jobs not only was necessary if we were to avoid mass unemployment, but also was attainable. Business in general acclaimed the setting of that goal, but in a surprising number of instances the CED was subjected to scathing criticism for setting a fantastic objective which, its critics predicted, could never be reached and, therefore, would prove to be a tremendous embarrassment to business in the postwar world. Today there are almost 58 million civilians employed in the United States.

Paul G. Hoffman

The ultimate test of an economic system is the standard of living it produces for the ordinary man—the factory worker, the little merchant, the office worker, and the small farmer. We know that as of today our system is producing for them the highest standard of living the world has ever known. I predict that it can be doubled within the next twenty-five years under our free capitalistic system provided the world remains at peace. Furthermore, I am certain that in that same period we can realize the age-old dream of abolishing poverty. These are predictions that neither Uncle Joe Stalin nor any other collectivist would dare to make for his system.

Other than to urge that we give unfaltering and enthusiastic support to the United Nations Organization, I do not propose this afternoon to discuss the problems incident to maintaining world peace. Rather, I shall address myself to the question of how our capitalistic system can be maintained.

Dangers to Capitalism

In view of what the capitalistic system has produced for America and in view of its promise, it may seem unreasonable to suggest that there is any danger whatsoever of our losing it. Of course, if a popular vote were taken on the issue of capitalism versus collectivism, capitalism would win hands down. But the people of a country do not give up democratic capitalism by direct vote. Instead, they vote on measures disguised to have great popular appeal. The NRA, with its promise of profits for everybody, fooled many businessmen. But it was a first step toward Fascism. A government guarantee of "jobs for all" has great appeal to some labor leaders, but such an unlimited guarantee could be carried out only by a government with unlimited powers, and to give our government such power would take us a long step down the road toward national socialism. It is through flank movements such as these that our democratic capitalism could be so vitiated that it would be in danger of being replaced by an anemic form of collectivism.

To safeguard ourselves against either frontal or flank attacks upon our "way of life," we should take a long, hard look at our economic system to find out what makes it tick, what has made it strong, what its weaknesses are and how they can be corrected. Our answer to the critics of capitalism should not consist of a recital of past accomplishments, but rather, a plan of action to provide ever increasing opportunities for more and more of our people.

As we look at the broad picture of American capitalism, we find two major, natural characteristics that stand out:

1. **Our economy has been dynamic and highly productive.**

Since the turn of the century one great invention after another—radio, the telephone, the airplane, the automobile—has given a start to new industries which have grown into giants. We have perfected techniques of mass production, streamlined distribution, and modernized our merchandising. We have seen the income of the average American family doubled, and for the second time in a generation the dynamism and high productivity of American industry have proved the decisive factor in winning a World War.

2. **Our economy has had an inherent tendency toward instability.**

During the last 100 years we have had 26 business depressions of varying depths. Within the last quarter of a century, we have had our greatest boom and greatest depression.

Why has our economy been dynamic? A dynamic, productive economy is one which takes full advantage of the energies of the people who work within it. Assuming adequate natural resources, how dynamic it is will depend substantially on the extent to which the potentialities of its citizens are realized; upon how much use is made of their natural inventiveness and resourcefulness, and upon how well they work together. We had an excellent example of what could be accomplished by teamwork during the war. We are learning today—the hard way—the high cost of conflict between groups. We will discuss what can be done about that later. Let's first try to find out what makes people work and think.

Few people work for work's sake. Fewer settle down to the tough job of thinking just for the fun of it. Most of us ordinary fellows put forth our best effort only as a result of pressure in the form of penalties for inaction, and rewards for extra exertion. Rewards are the most powerful influence. In fact, psychologists have discovered that rewards have nine times the pulling power of penalties, and the psychologists also warn against excessive fear as a penalty, because fear corrodes and does not stimulate. (The Nazis found slave labor inefficient and wasteful.) It is healthy for people to be concerned about their future, dangerous to have them fearful. Our American system has traditionally offered rich rewards for hard work and creative thinking. It has imposed reasonable penalties on those who did not work or think. That's why it has been dynamic.

Of course, we have used rewards and penalties most effectively in the field of private enterprise. In some areas, publicly owned facilities can serve the public better, and there public enterprise should have the job. But we cannot expect public enterprise to be as dynamic as private enterprise. The pressures—rewards and penalties—that create dynamism are much stronger in private enterprise. For instance, private enterprise can go broke. That's a penalty that means something: No one wants to go broke. And the private concern can offer greater incentives to its management and its employees for working hard and thinking hard. Because people are people, bigger incentives call forth greater efforts. That's why if we're to keep our economy dynamic, private enterprise must continue to have the predominant role.

Reason for Instability

Why has our economy had a tendency toward instability? The answer is simple: In a free economy, market demand is unstable. All of us can determine for ourselves how much of what we have we want to spend, when we want to spend it, and what we want to buy. The higher our standard of living, the greater the instability, and again the reason is obvious. If most of us are just barely able to earn a minimum living, we will have little choice as to what we buy or when we buy it. Our money will go for food, clothing, and shelter, that we have to have regularly. On the other hand, the more money we have beyond what we must use for basic needs, the more chance we have to choose what we buy and the larger the number of purchases which we can postpone.

What is true of the individual buyer is true of business. Business can postpone their purchases even more easily than individuals. Modern competition makes business put more and more of their money into capital goods—buildings and machinery, office and store equipment, and inventories—to make possible low-cost production and to provide the values and services which buyers demand. If businesses do not make such purchases, the savings of both individuals and businesses cannot find their way into the stream of active, creative capital. But businessmen will make investments in such capital goods only if there is a promise of a reasonable profit; so these purchases are postponable. When chances of profit are dreary, they are often put off even though ample cash reserves are on hand. The problem of market demand is thus a dual problem: There must be the power to purchase and a willingness to spend, before we can have adequate market demand.

If we are right, then the strength of our democratic capitalism lies in its natural lusty vitality; its weakness is its inherent tendency toward uncontrolled fluctuations. Therefore, it is up to us to adopt measures which will protect and enhance its dynamism and minimize its instability. Some of these measures are already known. All that is necessary is getting them applied.

Calls for Competent, Aggressive Research

In addition to these measures about which we are certain, there are a great number which have been proposed about which there can be a real question. Only through competent, aggressive and comprehensive research can we acquire the knowledge necessary to determine which measures are sound; which are unsound. We have, for example, had

*An address by Mr. Hoffman before the Annual Convention of American Bankers Association, Chicago, Ill., Sept. 23, 1946.

numerous proposals offered for the management of the public debt. Various suggestions also have been made for controlling the flow of credit. And, of course, in the last several years we have had open season on proposals for guaranteeing full employment. Research alone will not do the job. It can produce the facts but we ourselves have to supply the courage to face those facts. We must not repeat the cycle which followed World War I, when our nostalgia for normalcy resulted in an opposition to all change, which was followed, quite naturally, by change for the sake of change—much of it stupid. We must not only face the facts with courage, but also translate them into economic policy which will keep our system of capitalism dynamic and promote its stability. By "we" I mean all of us—employees, employers, farmers and government officials.

Part Federal Government Plays

One fact which we have got to face now is that the federal government plays an important part in our capitalistic system. Those who claim that all we have to do is "unshackle free enterprise" are guilty of loose, irresponsible talk. We want a government of laws—not a personal government—and the government must administer those laws. But men who say that the role of government should be merely that of an "umpire" have their heads in the sand. Our federal government intends to take at least $20 billions away from its citizens in taxes every year; and it will spend at least $20 billions. (It's taking $40 billions and planning to spend $40 billions this year.) That fact alone makes it impossible for the government to be neutral in its influence. In the future, as in the past, private enterprise must accept the larger part of the burden of keeping our economy dynamic. Nevertheless, the economic operations of the government will have a substantial effect on dynamism, and a controlling influence on stability.

Shockingly little is known about what our government should do to promote national prosperity. However, it is fairly easy to indicate areas where research would unquestionably bring to light measures of great value. And we have enough knowledge so that certain of our suggestions can be quite specific.

What Government Should Do

Let's start with a general statement. **The function of government is to create conditions under which free labor and free business can work effectively in the public interest.** Using this as a guide, I propose that to encourage dynamism:

1. **We need a complete recast of our tax system.**

In the past, legislators have drafted tax laws with an eye to losing the fewest number of votes. Yet we must have business expansion if we are to have high employment. Therefore, our primary concern must be with the impact of taxes on business expansion.

We have already reached the danger point with our present tax system. Exact figures are not available but certainly over half of the seed money for the growth of business has come from plowed-back earnings. What might have happened over the past 100 years if we had had a 38% tax rate, nobody knows, but there is no question but that taxing away seed money is dangerous.

Too many of us make the mistake of thinking that taxes are paid by business. Business can collect taxes, but taxes are paid by people. People—live, human beings—pay all taxes. Taxes on business are spread among the consumers, workers, and investors—people, every one of them.

If we hope to have a dynamic economy, we have already pointed out that we must have incentives that draw out the uncommon talents of our creative people. Monetary reward, of course, is not the only incentive, but the urge to create is dampened in all of us—actors, chemists, writers, physicists, business managers, etc.—when the government takes up to 90% of our earnings in taxes. We must revise our tax system so that it does not bear too heavily on the creative inventive forces that have been traditional in American capitalism.

2. **Government must plan for competition.**

Too many businessmen, labor leaders, and government agencies have directed their plans **against** competition by schemes of price maintenance, freezing of trade practices and such measures. The government must pursue with great vigor a policy which will: Eliminate monopolistic practices, on the part of either business or labor; extend the area of competition; and promote stability in ways that will supplement competition rather than restrain or extinguish it.

3. **Government must promote new and small business.**

Obstacles which stand in the way of new business and the growth of small business must be removed. The special handicaps which confront small businessmen must be recognized and new or expanded fields of credit made available to them upon proof of capable management. Commercial banking, faced with the dual responsibility of providing an adequate flow of commercial credit and, at the same time, safeguarding the funds of its depositors, is necessarily limited in the amount of equity capital it can furnish, but where such limitation results in an inadequate amount of desirable credit perhaps the Federal Reserve System can cooperate with investment bankers in working out new and more effective arrangements.

4. **Our government should promote international private trading.**

This is more difficult than ever today because the war accelerated the tendency toward making international trade a state function. In this field our government has already taken the lead in breaking down artificial trade barriers and restoring opportunity to the private trader. If we are to achieve this goal, we must have help from other countries. I am hopeful that we have made a good beginning with the British loan. It is the first step toward international economic coordination. And we must have international economic coordination if we are to have political coordination and, finally, world peace.

Taxes Come First

Now, how can our federal government contribute stability to our economy? Again, taxes come first:

(1) **Our tax system must be revised to help counteract both inflation and deflation.** This should not be too difficult. As a basic principle of tax policy our tax rates should be set to balance the budget in a period of normal prosperity and then let alone. In a year of high prosperity (such as the present fiscal year) a substantial surplus of receipts over

(Continued on page 1804)

Mutual Funds

New Issues vs. Mutual Funds

Once again it has taken adversity—and crippling losses to the very people who could least afford them—to demonstrate that successful investing is a difficult, full-time, professional job. Moreover, it is a job wherein fundamentals and the basic rules of prudence cannot be ignored.

All investing involves the placing of capital at risk. And a first consideration of every investor should be the kind and degree of risk he can prudently assume.

New common stock issues, by and large, involve a relatively high degree of risk. They represent a host of question marks which only time will erase. Obviously, they must be "attractive" in order to be sold. But the fact remains that a high percentage of all common stocks issued in this country during the last 40 years are entirely worthless today. Only a select few have successfully negotiated the develmental "bad lands" and entered the green fields of profitable "seasoned" investments.

Some new issues, of course, do prove highly profitable. But only relatively weatlthy investors can afford to assume the risks involved in reaching for the potential gain. That is why such issues have been referred to as "a rich man's gamble." For the vast majority of investors there is still no substitute for the careful selection of seasoned securities, the broad diversificaion, and the continuous professional supervision which the mutual funds provide.

And yet each recurring period of prosperity in the business cycle siphons off some of the savings of Widow Jones and Farmer Brown and Doctor Smith into new enterprises on the mistaken notion that they are "investing" their money—a process which inevitably accentuaes the peaks and valleys, embitters the unsuspecting investors, provides ammunition for the "isms" and the bureaucrats and does harm to our capitalistic system generally.

Here, for example, are the up-to-date market records of certain recent new common sock issues:

MARKET PERFORMANCE OF CERTAIN RECENT NEW ISSUES

	Date Offered	Offering Price	Close 9-19-46	Percentage of Decline
Detroit Harvester	Jan 28	21	12	43%
Electronic Corp. of America	Jan 14	5	2⅜	52
Kaiser-Frazer	Jan 23	20¼	10½	48
Kayser & Co.	Jan 30	25¼	16⅛	36
Grayson Robinson	Mar 6	31	15½	50
Higgins, Inc.	Mar 22	11	3¾	66
Pratts Frozen Foods	Mar 4	6	2½	58
American Air Lines	Apr 10	18	11½	36
Chain Store Investment Corp.	Apr 23	8.20	3¼	60
Linn Coach & Truck	Apr 10	3	1	66
National Automotive Fibres	Apr 15	19⅞	11¼	43
Pressed Steel Car	Apr 9	26	14½	44
Brandt Warner Manufacturing	May 14	3	1⅜	54
Hytron Radio & Electronics	May 21	9	4½	50
Joy Manufacturing	May 2	32½	20¼	38
Mercantile Stores	May 15	33	21⅞	34
National Skyway Freight	May 3	5	2¼	55
TACA Airways	May 2	15½	5	68
Celotex	Jun 4	36¾	24	35
General Dry Batteries	Jun 13	16¾	9½	43
United Printers & Publishers	Jun 17	25	16½	34
Coro Inc.	July 9	24½	14⅞	39
Reeves Bros.	July 16	26½	16½	38
Stratford Pen	July 17	9¼	5	46
Jack & Heintz	July 22	17	8¼	51

By way of comparison, here is the performance of several representative mutual funds:

BALANCED FUNDS	*Decline from 1946 Peak to Sept. 19, 1946
Fund A	15.13%
Fund B	15.04
Fund C	20.76
Fund D	15.68
Fund E	14.15
COMMON STOCK FUNDS	
Fund A	23.97%
Fund B	25.21
Fund C	25.18
Fund D	24.87
Fund E	24.45
AVERAGES	
Dow-Jones Industrials	21.19%
Dow-Jones Rails	31.08
Dow-Jones Composite	23.94

*Decline in net asset value per share. All figures, including the Averages, are adjusted for dividends paid.

Nor do these comparisons tell the whole story—that will require time. The decline in mutual fund shares represents a price markdown on investment values following a substantial price advance. Although professional investment analysts do no agree on the time that will be required for recovery, most of them believe that the mark-down will be only temporary.

And, regardless of intermediate market action, investors who own mutual fund shares have the assurance of a steady flow of income—plus ready marketability should they need it.

By contrast, quie a few new common stock issues offered this year provide neither the assurance of continued income nor ready marketability to the degree required by the prudent investor. Undoubtedly some of them will ultimately make the grade—but others won't. And, regardless of its merits as a pastime, trying to "pick the winners" among each crop of new issues is a temptation that the prudent investor will avoid.

Capitalism—Its Promise And Problems

(Continued from page 1803)

expenditures should be produced. In a year of low business activity, there would be a deficit. On the basis of our past economic history, we have every right to expect that in any normal cycle of years conditions would average out at something better than normal prosperity. That means, of course, that in such a cycle receipts would exceed expenditures. The significant feature of stabilized tax rates is that they result in the collection of a high volume of tax dollars in periods when inflation threatens and a low volume of tax dollars in periods of depression. Stated otherwise, it takes money away from people when they are inclined to spend too much and leaves money with them when they have too little to spend.

(2) **Federal and local governments can help stabilize the economy through better timing of public works.** In the past we have had the greatest volume of public works during times of prosperity and the lowest volume during depressions. It ought to be the other way around. If we are to have a sensible program, we must have advanced planning — by planning I mean blue printing, together with detailed schedules for financing. Some public works cannot be postponed, but as much as possible public building should be timed to combat the fluctuations of the economy.

(3) **Our government should expand and consolidate unemployment compensation coverage.** So far, we have scarcely begun the use of insurance as a social tool. It can help maintain purchasing power, and it gives people the confidence of guaranteed personal security. We should not be content until every worker is covered. Although payments should never be large enough to make unemployment attractive.

(4) **Government may also have an opportunity, through a proper study of the credit structure, to develop automatic controls which will tend to counteract booms and depressions.** Up to now, our credit system has tended to heighten booms and deepen depressions. I do not pretend to know what should be done. I do know there have been times when it was too easy to get credit, other times when it was most difficult to get it even though a business was solvent. Obviously it is you bankers who have the knowledge necessary to make practical suggestions for improvements. I realize that substantial credit pools already have been organized by private bankers and that other steps have been taken. I am opposed to the government extending its activities into the private banking field, but I raise the question as to whether there are not cooperative steps which can be taken by the federal government. If there are, prompt action is desirable. If there is either inaction or too much delay, crackpot measures may be adopted.

Now what are the responsibilities of businessmen for making our economy dynamically stable? The following recommendations do not depend on future research. They point to actions which businessmen can take today. I urge every employer to examine his own business — whether he has two workers or 2,000—to see if he cannot help in one of the following ways:

First, **we must push forward the search for new products and services.** New products can enrich our lives and fill needs of which we are unaware today. Radio is the most recent example of such a product. We can get some idea of the debt we owe to commercial research if we stop to realize that more than 50% of our people today are employed in manufacturing and servicing products which were unknown 50 years ago. The automobile industry alone provides jobs for over a million people. Whether you design a new airplane or work out a bettter way to deliver milk, you have added to the total dynamics of our economy by creative, resourceful action.

Second, **it is the responsibility of every business leader to provide conditions which will encourage the growth and development of those associated with him.** Far and above the responsibility of management for its products is responsibility for its people. Business managers are in a very real sense the trustees of the potentialities of those who work for them. It is people who make a business. Show me a business where people are growing, and I will show you a business that is making a true contribution toward a dynamic America.

Third, **the greatest contribution any businessman can make toward stability is to operate his business profitably.** Every businessman owes this major responsibility to his stockholders, his associates, his workers, and the public. Only a profitable business can offer security to its employees.

Fourth, **every employer should regularize employment in his business to the greatest possible extent.** Much has already been done, but we can do more to flatten out the seasonal curve of employment in most industries.

Fifth, and last, **businessmen should exercise scientific control of sales expenditures.** In the past American concerns have kept their sales and advertising budgets high when business was good and easy to get. Sometimes some of these expenditures were questionable. When business was slow, and sales tough to get, sales and advertising were pared to a minimum. This is neither good business nor good sense. If we are to have a stabilized market demand, selling pressures should be maintained—perhaps increased—at the first sign of a decline in business. We must avoid spending sprees when business is good, so that reserves will be available when extra pressure is needed. I know of no single way business managers can do more to help stabilize market demand than through greater stabilization of sales in advertising expenditures.

Leaders in agriculture and labor face the responsibility for proposing measures in their fields which will promote dynamic stability. It would be presumptuous of me to suggest what those measures should be. This I will say—that not only must each group have a sound group program but that groups must do a much better job of working together from now out than they have since V-J Day. It behooves management and labor quickly to find the means for promoting industrial peace on the industrial front. Strikes and lock-outs are similar in effect to the atomic bomb on the war front. They injure those not only against whom they are directed, but the whole community as well. Means must be found for settling difficulties without reckless use of such destructive weapons. It also behooves leaders of management and labor to understand the problems facing agriculture and be prepared to support a sound program. We must be Americans first and businessmen, labor leaders, agricultural leaders and government officials second.

Perhaps I have said enough to make clear the magnitude of the task that lies ahead. I am sure you will agree with me that the stakes we are fighting for are tremendous. More is involved than the maintenance of a free economy, because unless we can keep our economy free our free system will collapse. If our free system in America collapses, freedom and liberty will be words empty of meaning throughout the world. People yearn for freedom but first they want bread. If we do succeed in reaching our economic goals, then I predict that the world drift toward collectivism which was so marked between World Wars I and II will be reversed and that before too many years have passed our special type of democratic capitalism will become a pattern for all the world, and that not only in America but everywhere, there will be equality as well as certainty of opportunity for growth and development of the individual — materially, intellectually, and spiritually.

Britain and Bretton Woods

(Continued from page 1781)

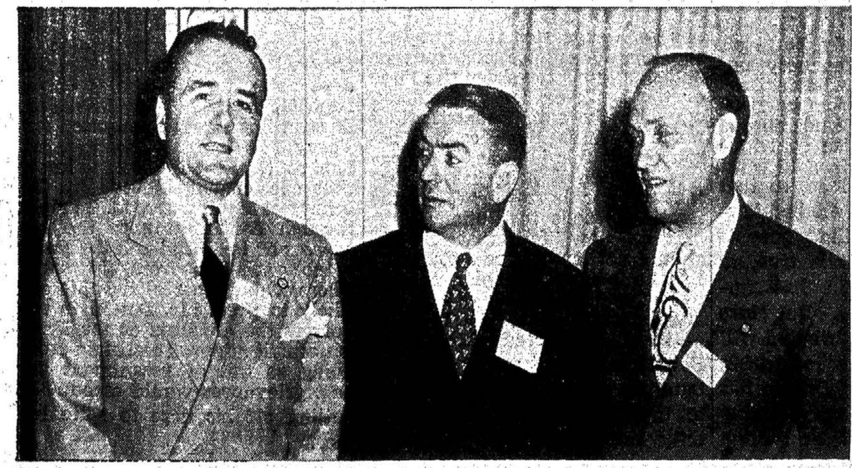
There is, however, a fundamental difference between the present situation and that of the inter-war period. The present arrangement is such that unless Britain borrows from the Fund and the Bank she automatically lends through them. This is because of the substantial size of the British quota in their capital resources. It is true, in the 1930s Britain participated in the share capital of the Bank for International Settlements. The amount involved was, however, negligible compared with that of the British commitments in connection with the Bretton Woods institutions.

Until recently, Mr. Dalton's unwillingness to borrow from the Fund or the Bank met with unanimous approval in Britain. There have been lately, however, signs of criticism, precisely because it has come to be realized that, by abstaining from borrowing, Britain actually lends abroad the part of the British contribution that is payable in gold coins from the American loan, so that Britain relends what she had borrowed. The bulk of the payments have to be made, it is true, in Sterling, and Britain has unlimited amounts of it. But since the Sterling thus contributed will be borowed by other countries, the net result is that Britain has to export goods without receiving for them either gold or foreign exchange, or goods in return — at any rate for the present.

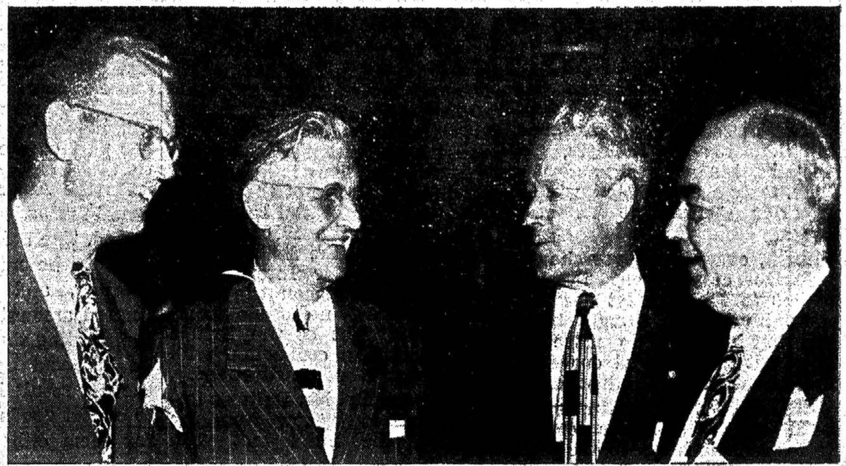
Obviously, at the present stage, Britain can ill afford to be thus out of pocket. To prevent this, it has been suggested that Mr. Dalton should change his attitude and should borrow from the Fund or the Bank or both an amount equal to the actual contributions made towards their capital resources. If this is done, it is contended, then Britain has neither lent to nor borrowed from the Bretton Woods institutions.

It is now felt that Britain should not lend abroad when she has no lendable surplus, merely out of considerations of prestige and dignity. Too much of this sort of thing has already been done. Britain could not afford her contribution to UNRRA, or her share in the Chinese loan, to mention only these instances. The idea that Britain must keep up appearances even though she is obviously not in a position to lend abroad has been subject to much criticism. In 1931, when the pound was becoming shaky, a City wit once observed "Britain does not yet know she is bankrupt, Germany already knows it, Austria has already forgotten it." Today Britain, although not bankrupt, certainly ought to know that she cannot indulge in the luxury of lending abroad. Lending through contributing to the resources of the Fund and the Bank is no exception from this rule. Those who have realized this are likely to press Mr. Dalton to reborrow the amounts of the British contributions. To abstain from doing so out of resentment for past grievances would amount to cutting off his nose to spite his face.

Los Angeles Entertains N. S. T. A.



Thomas Graham, *Bankers Bond Co.*, Louisville, retiring N. S. T. A. President; Clifford E. Poindexter, *Turner-Poindexter & Co.*, Los Angeles, President of the Security Traders Association of Los Angeles; R. Victor Mosley, *Stroud & Co.*, Philadelphia, President-elect of the N. S. T. A.



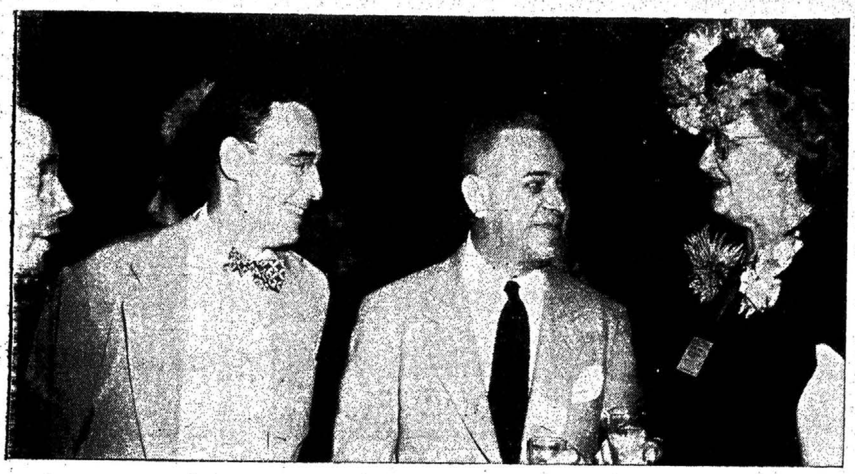
Graham Walker, *National Quotation Bureau, Inc.*, New York; Frank White, *National Quotation Bureau, Inc.*, San Francisco; Joseph Gannon, *May & Gannon*, Boston; John O'Neill, *Stein Bros. & Boyce*, Baltimore.

Harold B. Smith, *Collin, Norton & Co.*, New York, Chairman of the N. S. T. A. National Advertising Committee; Donald E. Summerell, *Wagenseller & Durst, Inc.*, Los Angeles, Southern California Regional Chairman of the N. S. T. A. Advertising Committee.

John C. Hecht, *Butler-Huff & Co.*, Los Angeles; Wm. Perry Brown, *Newman, Brown & Co.*, New Orleans; Paul Goldschmidt, *Pacific Co., of California*, Los Angeles.

Paul I. Moreland, *Moreland & Co.*, Detroit; Jesse Sanders, *Sanders & Newsom*, Dallas; Paul I. Yarrow, *Clement, Curtis & Co.*, Chicago.

S. E. C. Commissioner Robert McConnaughey; Stephen G. McKeon, *Chas. W. Scranton & Co.*, New Haven, Conn.



Herbert Petty, *Equitable Securities Co.*, Nashville, Tenn.; R. W. Thornburgh, *W. C. Thornburgh Co.*, Cincinnati; H. F. Burkholder, *Equitable Securities Co.*, Nashville; Mrs. Ora M. Ferguson, *Merrill Lynch, Pierce, Fenner & Beane*, Louisville.

Los Angeles Entertains NSTA

The Security Traders Association of Los Angeles entertained those on the special train from the National Security Traders Association Convention in Seattle at a buffet dinner and cocktail party at the Ambassador Hotel, Sept. 25.

Wives of the delegates were guests of the local organization at Tom Brenneman's "Breakfast in Hollywood" Sept. 26, after which they made a tour through the city and to the beaches. The Los Angeles Traders organization furnished thirty-five automobiles for the visitors to see the sights of Southern California.

Nationalization vs Free Enterprise

(Continued from page 1798)

Government Regulation — Management is developed in layers of authority from the top down. The most successful producers are those who see to it that such procedure prevails. They thereby obtain the benefit for the buyers of the individual ability of all the workers. The result is a growing tendency on the part of industry to operate in this manner.

7

Under Nationalization — Workers tend to become static. Some political appointee without proper knowledge of the business may be over them. The effect is to discourage the exercise of initiative for the good of the business. Again, when a certain amount of progress has been attained, a position may be reached that may be jeopardized by elections, if the government is only semi-totalitarian, or by appointments if it is fully totalitarian, a situation which nationalization of industry inevitably leads to.

Under Private Enterprise With Government Regulation — Throughout the layers of authority, workers can move forward as their ability and progress and production make possible to higher and higher positions. The competition to improve their positions tends to improve production methods and reduce costs. There is no fear of reaching a level where a turnover in political power will make them lose their positions.

8

Under Nationalization — Under extended nationalization, labor must lose its right to strike and all semblance of collective bargaining. It will have to deal with government officials who will have the power to ignore requests for consideration from labor. Strikes against government would be against the constituted authority of a country and if allowed to prevail, would definitely weaken the government to the detriment of the whole nation. The wage question would certainly have to become static.

Under Private Enterprise With Government Regulation — Labor would have the right to strike and could meet its problems through collective bargaining. Under wise labor laws that would be fair to labor, fair to employers, and fair to the public, this would be in the interest of all concerned.

9

Under Nationalization—Various layers of authority built the red tape that inevitably exists under bureaucratic government, and nationalization of industry without such form of government is impossible.

Under Private Enterprise With Government Regulation—Various layers of authority can be efficiently regulated.

10

Under Nationalization — The natural struggle of men for power over others, which is an inherent part of government development finds this character of disability in nationalized production. The effect is against the interest of consumers.

Under Private Enterprise With Government Regulation—Instead of competition for power, in private industry the competition is for more lucrative employment, which is based upon the exercise of greater efficiency which means reduced cost of production; therefore, is in favor of the consumers.

11

Under Nationalization — Under nationalization, the incentives that make profit valuable are eliminated. If government adds something to the cost of production when selling it to its citizens, it is only taxing them in a different form for the things they buy. It prevents the creation of a community in which men, through their savings, can undergo the joy of building their government, their churches, their educational institutions, and their means of culture. Pride of possession and taking part in furthering a prosperous community do not exist. Life must be dull and drab.

The nationalization of one industry would not, of course, bring such result, but nationalization once started grows toward complete nationalization and totalitarianism with great rapidity unless the people see their error in time to stop it.

Under Private Enterprise With Government Regulation — In its production, private industry strives for profit. In doing so along competitive lines, it aims to reduce costs and make goods that are desired by consumers. The incentive for profit builds for the nation through increased income. It enables the purchase of goods produced by all other industries that may be directly or indirectly needed in the economic or cultural economy. Profit is necessary in a community economy to take care of government, of the church, of education, and of cultural activities and the welfare of the people. Profit offers an incentive that helps to create a more beautiful world. Like every function of mankind, it can be abused. Correction of abuses can be made through government regulations. There is no excuse for the destruction of profit when under proper conditions that are attainable, it can serve the people in tremendous ways that are far beyond measurement.

12

Under Nationalization — Regimentation under nationalization is inevitable, and regimentation positively leads to the mental deterioration of a people. Manpower production is sure to fall, and the standard of living of the people must go down with it. Minorities could not obtain consideration.

Under Private Enterprise With Government Regulation — The freedom of the people, their ability to worship as they will, to understand what is going on about them, to exercise their own desires, to build their lives as they choose without being subject to the wills of other men, all under regulations of government whose only curtailment of their freedom lies in the protection of the rights of others that every individual must recognize before he can claim rights for himself, are possible under private enterprise.

13

Under Nationalization—Extended nationalization would lead to the extension of police power on a totalitarian basis which aims to bring the individual citizen under the power of police in such manner that he must follow the government line or be destroyed.

Under Private Enterprise With Government Regulation — Police systems under freedom of enterprise can not function in any manner that will control the will of citizens or that can develop an espionage system that can prevent the will of the people from functioning.

14

Under Nationalization—Extended nationalization of banking and industry, in forcing the people into a position of mere pawns, would result in preventing them from raising their voices in protest against government abuses as they would be in danger of having such voices silenced forever.

Under Private Enterprise With Government Regulation—Among the freedoms that follow private enterprise, the right to raise his voice in protest is open to the stockholder and also to the consumer public, and both are protected because appeal can be made to government in case rights are abused. Freedoms that exist, when exercised properly, develop pride in successful production and in country.

15

Under Nationalization — The very nature of banking is such that to serve the people it must be carried on in a manner free from political prejudices, which is impossible under nationalization. Banking could be utilized to further impractical government plans that are against the interests of the people.

Under Private Enterprise With Government Regulation — Credit must be extended to further a sound economy on the basis of character and ability to repay loans made, which is only possible under private enterprise.

16

Under Nationalization — There can be no checks upon the methods of carrying on government banking except as men in government may determine, and such men are often in position where they are the ones to be checked. Losses can be met from taxation, without the people becoming aware of it.

Citizens become more and more

(Continued on page 1808)

Bank and Insurance Stocks

By E. A. VAN DEUSEN

This Week — Insurance Stocks

This is "Fire Prevention Week"; newspapers, financial and trade journals, popular magazines, radio and movies are urgently impressing on the public the need for unremitting vigilance and intelligent preventive measures, in order that the destructive toll of fire may be drastically reduced.

The National Board of Fire Underwriters points out that fire losses in the United States for the first eight months of 1946 aggregated $373,323,000, which amount is in excess of the annual totals of eleven years out of the last fourteen. If this trend continues, the Board states that "total fire waste for 1946 will be nearly $600 millions, the highest ever known in any year of history." In 1945, annual fire losses aggregated $455,329,000, the highest since 1930 when the total was $501,981,000.

It is not the intent of this column to minimize the seriousness of fire losses, for when half a billion dollars of productive property goes up in smoke in a period of twelve months, it constitutes a serious economic waste, to say nothing of the accompanying tragedy of lost human lives. But a little perspective is sometimes a good thing when studying a situation, in order that our views be not unduly distorted by the immediate picture. For this reason the accompanying 42 year record of fire losses in the United States is presented. The table also shows the growth in population and the growth in assets of fire insurance companies over the period, two items of importance which usually are ignored when fire losses are discussed.

The tabulation starts with the year 1905, when fire losses totaled $165,222,000 or less than $2.00 per capita of population. In 1906, due to the San Francisco earthquake and conflagration, losses jumped to $518,612,000, equivalent to $6.06 per capita, the latter being the highest on record. Annual losses in the subsequent decade average roughly $200,000,000, but this period was followed by fifteen years of irregularly rising losses, which in several years exceeded half a billion dollars. It was not until 1933 that annual losses dropped again below $300,000,000, under which figure they remained until the year 1941.

In the year 1945 losses were $455,329,000, a figure that has been exceeded eleven times in the previous 39 years; with regard to 1946, it seems probable that total losses may reach an all time high, though it is not yet certain that they will exceed 1924, 1925 and 1926 losses.

Over this 42 year period the population has increased from approximately 84,000,000 to approximately 137,000,000, a gain of 53,000,000 or 63%. Consequently the record of recent losses on a per capita basis shows actually some improvement over earlier years, particularly over the 1920-1930 period, though per capita losses in 1944 and 1945 were substantially above the 1932 to 1943 level.

The fourth column of the tabulation shows the total assets of all stock and mutual fire insurance companies. It will be noted that in 1945 their total assets were nearly eight times their 1905 total. In 1905 total fire losses represented approximately 30% of total assets; in 1906 losses were more than 90%. The high annual fire losses of the 1920-1930 decade average approximately 24.0%, while in 1945, fire losses represented little more than 10% of total assets.

Another factor that should be given its due consideration in appraising the long term trend of fire losses, expressed in dollars, is the great change in the value of the dollar that has taken place over the past four decades. As of July 1946 the index of the value of the dollar was 71, compared with 100 for 1935-39 average, and 141.4 for the year 1913. Thus today's dollar has only about half the value of the dollar of forty years ago.

Notes: Population data interpolated annually from U. S. Census figures. Fire losses as compiled by National Board of Fire Underwriters since 1916; prior thereto, "Journal of Commerce." Total assets of the fire insurance companies from Statistical Abstract of the United States and "The Spectator." Value of dollar as compiled by U. S. Bureau of Labor.

Year	Fire Total Losses ($000)	Population (000)	Per Capita $	Total Assets Stock & Mutual Co's. ($000)
1905 ------	165,222	83,984	1.97	544,182
1906 ------	518,612	85,600	6.06	------
1907 ------	215,085	87,200	2.47	------
1908 ------	217,886	88,800	2.45	------
1909 ------	188,705	90,400	2.10	------
1910 ------	214,003	91,973	2.33	572,899
1911 ------	217,005	93,250	2.33	------
1912 ------	206,439	94,600	2.19	------
1913 ------	203,764	95,950	2.13	------
1914 ------	221,439	97,350	2.27	------
1915 ------	172,033	98,700	1.75	873,945
1916 ------	258,378	100,100	2.58	965,859
1917 ------	289,535	101,500	2.85	1,077,952
1918 ------	353,879	102,900	3.43	1,189,795
1919 ------	320,540	104,300	3.07	1,391,096
1920 ------	447.887	105,711	4.25	1,569,141
1921 ------	495,406	107,400	4.52	1,592,351
1922 ------	506,541	109,100	4.65	1,627,345
1923 ------	535,373	110,800	4.83	1,782,383
1924 ------	549,062	112,500	4.88	1,913,477
1925 ------	559,418	114,200	4.90	2,092,499
1926 ------	561,981	115,900	4.85	2,248,197
1927 ------	472,934	117,600	4.02	2,503,063
1928 ------	464,607	119,300	3.88	2,867,832
1929 ------	459,446	121,000	3.79	3,084,057
1930 ------	501,981	122,775	4.08	2,834,708
1931 ------	451,644	123,650	3.65	2,640,8[illegible]3
1932 ------	400,860	124,550	3.21	2,484,357
1933 ------	271,453	125,450	2.16	2,229,590
1934 ------	271,197	126,350	2.14	2,273,866
1935 ------	235,263	127,250	1.84	2,556,122
1936 ------	266,659	128,150	2.08	2,815,293
1937 ------	254,959	129,050	1.97	2,630,815
1938 ------	258,478	129,950	2.07	2,751,314
1939 ------	275,102	130,850	2.10	2,940,489
1940 ------	285,879	131,670	2.17	2,933,738
1941 ------	303,895	132,520	2.30	3,052,316
1942 ------	314,295	133,370	2.36	3,123,352
1943 ------	380,235	134,220	2.83	3,446,091
1944 ------	423,538	135,070	3.14	3,750,169
1945 ------	455,329	135,920	3.45	4,237,313
1946 ------	*575,000	137,000	4.18	------

*Estimated.

Nationalization vs Free Enterprise

(Continued from page 1807)

dependent upon government. which can develop a control that can force those wanting loans to side with the "ins" in government which leads to totalitarian development.

Under Private Enterprise With Government Regulation — Loans are made free from any bias that might arise from government demands. The borrower and the lender represent the people dealing with each other. The banker knows that losses, if made, must be taken from profits and that bankruptcy will throw him out of business. As added protection to the public and all who deal with the banks, to those checks that are placed upon wrongdoing and inefficiency by management, government regulations are provided as additional checks with the power of law behind them. A nationalized bank can have no such secondary protection as it becomes a part of government itself, which can control it as it sees fit.

17

Under Nationalization—Capital funds are used without the payment of interest. Whatever the source of the funds may be, whether they are receipts from taxation or from government borrowings or otherwise, it represents an abuse of the use of capital which should be paid for on a legitimate basis as a protection to the whole economy.

Under Private Enterprise With Government Regulation — Capital used must be paid for either by dividends or interest, otherwise it would not be attracted to enterprise.

18

Under Nationalization — Under partial nationalization, unfair competition with the rest of industry would be certain. Government would be using capital without costs whereas private industry would have to pay for its capital. If government nationalized only the automotive industry, it would have to buy its parts from private industry, which would immediately put the parts industry in jeopardy as there would be no competition for government, which could fix the prices which it would pay in such a manner that it would be determining what the profits of private industry should be and what wages it might be possible for such industry to pay its labor.

Under general nationalization, there would be no competition for capital for investment in productive enterprises.

Under Private Enterprise With Government Regulation—Without competition from government, private industry could obtain capital for sound enterprises. The interests of the people would not be jeopardized because private enterprise had an unfair competitor for capital and one whose powers to fix prices and profits could actually destroy the ability of private enterprise to function.

19

Under Nationalization — Taxes that are levied by localities, counties, or states under private enterprise are lost to them under government operation, which puts a strain upon such divisions.

Under Private Enterprise With Government Regulation — Taxes are paid to communities, counties, and states that are necessary to their maintenance.

20

Under Nationalization — Man, because of his characteristics and propensity to make errors, requires checks upon his activities for his own protection and that of all others concerned. Such checks can not exist in forms necessary to protect the public under nationalization because those outside of government can take no part in them.

Under Private Enterprise With Government Regulation — The checks that are necessary to overcome the fact that men are prone to error and at times develop unfortunate characteristics, are provided by a private enterprise itself and are, in addition, within the control of government under laws that require government regulation where it may be found in the interest of the people.

21

Under Nationalization — The whole system under which the freedom of men from government abuse is attained can be broken down and destroyed with nothing to take its place that will build character, efficiency, and the opportunity for happiness among the people.

Under Private Enterprise With Government Regulation—The system under which men can utilize their savings in such manner as to build for others and themselves under conditions of freedom from government abuse and under which progress and prosperity can be attained is furthered under private enterprise.

It must be borne in mind that if only a few industries were nationalized, or even one or two, many of those reasons against nationalization that reach throughout the whole economy would not be as far-reaching. However, in the case of the particular industries which were nationalized, the harmful effects would exist, and they might reach into many allied industries which were not nationalized. One must also have in mind that with partial nationalization in force, there would be a strong urge on the part of government to extend it, and if this were done, it would ultimately have to reach through all industry because private enterprise could not live under the conditions that would arise.

It is inconceivable that there can be any lasting peace between the nations or even conditions of peace which will allow for stability and sound methods of living while governments are engaged in virtually stealing the rights of their peoples through taking from them little by little, or more rapidly when they can, the means under which their individual intelligence can play its part in furthering the business and social activities of the whole.

Even the smartest among all the people have not and can not have the full intelligence which lies within the tremendous variation of mental activities that lie within the multitude. It is only under free enterprise and government regulation that the individuality of the people can function, and unless it does function, the greatest good for all can not exist. Retrogression will displace progression. Peace will be impossible.

The American Way

Insofar as humanity has progressed up to the present, the American Way has proved to be the most effective for bringing men out from under conditions of mediocrity or actual hardship.

Just what is the American Way? It all functions from our Constitution and Bill of Rights.

Our laws, if they are truly Constitutional, do not curtail any individual in any accomplishment whatsoever except as the rights of others may be jeopardized.

The rights of others are in truth the very rights which an American himself is justified in claiming and demanding. They are the rights that a man must have for a full, complete, and constructive life that builds for himself and others, to the greatest extent that lies within his power. They are the rights that are alloted him by our Constitution and Bill of Rights.

Under these rights, how does our average American function? It is simple to conceive. He has the power to produce beyond his needs. He can, therefore, with property rights which he has, save something from his daily work. He can exchange his savings for the production that arises from the savings of others and so broaden the lives of all. He can use of such savings to provide for his protection through insurance and by making them serve to add to employment, further production, and increase his income. His savings may be small, but joined with the savings of others, they can accomplish wonderful things.

He grows mentally in power and understanding through such activities. His methods are basically simple. His surpluses are measured in tokens called money in order that he may exchange his goods without having to find others who have things which he wants who want things which he has to spare. These tokens also measure the value of his work, whatever it may be. He has built reservoirs of these savings called banks where they are gathered together with the savings of his fellows.

From these reservoirs, through investment, such savings go to reward the labor of others who may be building the homes, the factories, the means of transportation, and the production throughout his nation that make it possible for all to exercise such abilities as they may have to improve their own lives.

He may take part in organizing groups of people into business and industrial entities which all together make up the great economy of America.

He designates through selection and election those among his fellows whom he wishes to place in positions of government to devise ways and means through laws and regulations to protect the rights of all.

From his savings he pays taxes which provide the income of government officers and support the government in its activities for his benefit.

From his savings he has churches built, pays for their upkeep and the income of their ministers in order that they may be free from other duties to carry on their work.

From his savings he has schools constructed and provides the income upon which the teachers and others employed in the school systems live.

From his savings he builds hospitals, places of amusement and provides for the development of culture.

If he could not produce more than he requires personally, he could not meet the cost of government, the cost of religious instruction, and the cost of the education of his children. His savings are his property and from them he helps to build up his community, his state, and his country. They represent the surplus over his needs of such production or activities in the service of others as he may personally or working with others individually receive. His savings are, therefore, his profit, his property that his government protects for him by laws passed for such purpose. Profit is the surplus which the American uses to broaden and build his life so that it may make his world one of convenience, culture, and beauty.

He makes many mistakes. He profits from those mistakes when he stops and considers, corrects his procedure, and builds in new ways. His mind is free to study for new inventions, new processes, new methods for increasing the time at his disposal and the means of utilizing such time so as to give him pleasure and culture and enable him to carry on in ways that are for the benefit of all.

In general he has faith in himself.

When he makes mistakes that affect government through neglecting his duty as a citizen and in not voting for men of integrity or ability, he may suffer from government exploitation with its stultifying influence.

He enjoys exchanging goods with the peoples of other nations; he likes to visit their countries and know their peoples.

He does not like war, but he will fight if the world needs him and to the bitter end if he is attacked. He does not covet the lands of other peoples even after victory in war.

He is sympathetic and will give from his surpluses and profits to aid not only others in his own nation, but suffering peoples wherever they may be and whatever their nationality, when they meet with catastrophe.

He is free to express his opinion as he may wish if he does not trample the rights of others.

He serves his God in his own way without compulsion from those whom he may select to provide him with government. He sometimes forgets his belief in God and suffers in consequence, but his ultimate faith is great.

He is naive in many ways and is often influenced by alien ideas when they are dressed up to carry seemingly fine intent even though, as history has developed, their acceptance may have ruined many peoples. He is in danger because of this propensity today and the fact that when he is busy himself, he seldom stops to look and listen.

With all mankind, he has those human characteristics which, if not controlled, can lead to self-destruction and the betrayal of others, but his life of freedom helps protect him from the temptations they create. He surmounts them when he is content to live under his Constitution and Bill of Rights, and while he stands by these principles and helps the peoples of other countries to understand them, he is an example that all the nations may follow.

He peopled the last continent on earth, drawing from all countries to do so. He is representative of all the nations, and if he acts to restore those freedoms he has lost and insists upon their maintenance, after God he is the hope of the world.

He is an American.

Revision by Reserve Of Regulation C

Notice regarding a revision by the Board of Governors of the Federal Reserve System of Regulation C, dealing with the acceptance by member banks of drafts or bills of exchange, was issued to members of banks in the New York Reserve District by Allan Sproul, President of the Bank on Sept. 12. Mr. Sproul's advices follows:

"The Board of Governors of the Federal Reserve System has adopted, effective Aug. 31, 1946, a revised version of Regulation C, acceptance by member banks of drafts or bills of exchange. The regulation governs the acceptance of drafts or bills drawn against domestic or foreign shipments of goods or secured by warehouse receipts covering readily marketable staples and the acceptance of drafts or bills drawn for the purpose of creating dollar exchange. The revision has been made in order to simplify and clarify the regulation. In making the revision, the Board has had the benefit of suggestions received from a number banks experienced in acceptance credit procedure and from the Federal Reserve Banks.

"While the Board, in stating the requirements that must be met, has endeavored to lay down broad principles that should be observed, it should be emphasized that mere technical compliance with the provisions of the regulation will not necessarily afford an accepting bank protection from loss. Sound acceptance practice depends primarily upon the exercise by accepting banks of good credit judgment. The principal reliance for the maintenance of sound practices must be placed upon that judgment and the continued development of seasoned policies in this field of extension of bank credit."

Railroad Securities

The extremes to which a wave of pessimism can affect the thinking of investors, and the bad repute into which even the best of the rail stocks have sunk, is strikingly demonstrated by the recent market action of Union Pacific common. While most representative rail stocks have shown at least modest tendency to stabilize at prices above their 1946 lows, Union Pacific common continued last week to work progressively into new low territory. At its worst the stock hit a low of 117, affording a return of 5.13% on the $6.00 dividend maintained throughout the severe depression of the 1930s, which period saw a large number of our standard and well regarded industrial corporations reduced to purely nominal, or no, dividends.

This weakness might have some justification if the management had visualized catastrophe in its rate case exhibits as did the management of the Pennsylvania. In its earnings estimates filed in connection with the rate case, however, the Union Pacific looked forward to continued profitable operations with adequate protection for the present dividend. For the current year, and without resorting to tax carryback credits, the road estimates earnings of $12.75 a share on the common stock. For next year, based on granting of the full freight rate increase requested by the carriers, the estimate is for $13.75 a share of common. Considering the purpose of the estimates it can hardly be claimed that the management would be inclined towards any over-optimism.

The investment status of this already strong stock has been improved materially in the past couple of years through retirement of debt and low coupon refunding. Only a few months ago the road was successful in completing the lowest-cost term financing ever accomplished by a railroad. A large issue of 45-year bonds was sold at a premium with a 2½% coupon. Union Pacific's charges have never been burdensome. They will be even less so in the future. Allowing for payment of a small maturity on Jan. 1 it is indicated that these obligatory requirements will be down to around $9,800,000 entering 1947. This represents a reduction of some $4,300,000 as recently as four or five years ago. Moreover, the program is not expected to stop there.

The company has a maturity of $100,000,000 of 1st 4s falling due July 1, 1947. Based on information filed with the I.C.C. in connection with equipment financing, it is indicated that a large part, if not all, of this will be paid off in cash. To accomplish this the company as of the end of last July had net working capital of over $186,000,000. It should enter 1947 with more than $200,000,000 of net working capital. A year hence, then, the company should be burdened with no more than around $7,000,000 of fixed charges with a strong possibility that they may be below $6,000,000.

In the worst year of its depression history, 1935, the company reported more than $33,000,000 available for fixed charges before Federal income taxes. In only three years of the entire depression period did income available for charges before Federal income taxes drop below $35,000,000. Even these impressive figures do not tell the whole story of the strong earnings position of Union Pacific and the company's common stock. The low depression earnings did not include the substantial net the company is now receiving from its oil operations.

Up to now oil profits have come largely, if not entirely, from the Wilmington field of Southern California where Union Pacific's production did not start until 1937. Net income from oil and gas operations last year, on a very conservative accounting basis, amounted to $6,172,238 compared with $7,681,904 in 1944 and $8,836,651 in 1943. On the average these operations should alone be sufficient to carry total prospective fixed charges leaving earnings from the highly profitable railroad properties and extensive outside investments for the stocks. Before Federal income taxes the oil and gas operations in the three years 1943-1945 brought in, net, an overage of $3.40 a share of common stock. Additional important oil profits are in prospect, particulary from the rich Rangely field in Colorado. Under the pooling agreements with oil companies for development of the land Union Pacific's participation will be about 76% on the 3,314 acres on which it owns oil and gas rights. On the pooled lands the first producing well was complted in September 1945.

Once the question of the $100,000,000 1st 4s maturing next year is out of the way, it is believed in most railroad quarters that on the basis of indicated earning power holders of the Union Pacific common stock can look forward with considerable confidence to an increase in the dividend rate.

The Banker Looks Abroad

(Continued from page 1796)

and the fact of particular significance to bankers—is that in spite of all these difficulties France is moving ahead. There is little unemployment; production is increasing; Paris is as bustling as ever; it still serves about the best food in the world. The secret of it all is this: The key to prosperity is the effort of the individual citizen. Give him half a chance and he will improve his lot, and in doing so will improve the conditions of his country. That is happening in France. The farmer tills his field; the shoemaker somehow repairs or produces shoes; the merchant scrapes together a stock of goods to sell; life returns towards normal. Of course, it is true that as elsewhere the efforts of individuals are enormously helped or impeded by what the government does.

This power of individual initiative is being illustrated, not in France alone, but in Germany and England and all through Europe and elsewhere. In fact, the latest word that comes from Japan is that the industrious individual, one way or another, in spite of disorganization of his country, is gradually lifting himself and his fellows from the mire up toward the sun. This is the number one lesson that I would draw looking abroad today. It is the lesson of the enormous vitality and the overriding importance of individual initiative and effort.

The Laws of Money

In passing one can hardly refer to the experience through which Europe is now going without noting that there are again being demonstrated all through the Continent, and in other parts of the world as well, the inexorable laws of money. When there is too much money in the hands of the people in relation to the amount of goods which they can buy, there is price inflation. During the war patriotism and price controls suppressed, and partly defeated, the operations of this law, but, underneath, it was working to perform its usual havoc, and all through the world it has now broken into the open, and inflation of money is causing inflation of prices. In Germany the cigarette is more acceptable money than the mark. When we wanted to give a big tip after dinner we left two cigarettes beside the plate.

This inflation is the second great problem of reconstruction, and it is close kin to the problem of giving the individual a chance to work; for if the individual can work, he can produce the goods and the services for which money can be used, and so help restore the balance between money and goods. So the number one problem and the number two problem merge.

Of course, in this respect Europe is not unlike the United States, for the most important medicine for our inflation disease right here is to give enterprise a chance to produce without being impeded by labor strife, mistakes in price controls, and other handicaps. We have also to deal with money—that is, to stop the increase in money volume and do what we can to keep the present money forces in leash—but that medicine is not only difficult to administer, but powerless unless combined with increasing production. So, no matter what road we start to travel, we come back to the need for giving the individual, alone or in association with others, the chance to use his initiative, energy, and genius.

Conflicting Principles of Government

All of this brings us to some discussion of a great underlying world conflict which today troubles every one of us here, and which the traveler abroad encounters in almost every area he visits. That is the struggle which goes on between two systems of government; one which seeks to use the energies of the individual by regimenting him, by telling him what to do and enforcing the demands with threats and penalties; the other which seeks to stimulate the individual by giving him freedom, that he himself may decide, within the limits of certain necessary social restraints, what he works at, how much he produces, where he lives, and how he takes his satisfactions. The contrast is between what we may call "Statism" or "Totalitarianism" or "Collectivism," and what in this country we call "Democracy," though some other countries use that word in a different sense.

Unfortunately the expressions "right" and "left" have somehow been all mixed up in this discussion. Many people speak of "turning to the left" and "liberalism" when they mean turning to a form of Statism typified by communistic Russia. This is exactly the opposite of what was meant by liberalism in other generations. The American and the French Revolutions were both wars against the domination of the individual by the State; they were fought for the principles of individual liberty of Franklin and Jefferson, and Voltaire and Rousseau.

Curiously enough, there are some people who think of Fascism as the "right"—the opposite of Communism. In reality there is little to choose between them. Fascism is only another form of Statism. Probably we do well to avoid the terms "right" and "left" and talk about the contrast of Statism or Collectivism and individual liberty. In this contrast the United States has stood since its early days as the bulwark of individual liberty.

Today the battle of the two

philosophies of government and of economics and of life is being fought in every part of the world, including the United States. The war has made necessary and, beyond that, has furnished an excuse for the detailed control of the lives of the citizens by the State. Many people here and abroad are trying to make that system permanent. Some are acting from a lust for power; others honestly believe that is the way to a better life.

This latter group is impatient with the slowness of democratic processes and believes the power of centralized government can plan and provide the "better life" more quickly. The evidence is to the contrary. For brief periods dictatorships have shown material gains. Pre-war Germany had no unemployment, and the streets of its cities were incredibly clean, but Hitler and Mussolini and other despots before them failed to find the secret of lasting progress. Human life is growth in which people get their satisfactions and make enduring progress, not by being done good to, but by maknig their own choices and carrying out their own plans and desires. The Christian religion is clear on this point, "What shall it profit a man if he gain the whole world but lose his own soul?"

But, whatever the basic reasons, the battle is on. The Socialist Party in England is perpetuating government controls; so also the Communists and Socialists in France and other European countries. The same conflict rages in China.

In the United States not only the recognized radicals but many of our educators, our public school teachers and our college professors, and even some of the clergy, are urging increased government controls and decreased human freedom, as the way towards the better life. One sign of hope is that the intelligent American voter is waking up to the threat. We don't want Statism here, and we are beginning to see with clearer eyes the struggle that goes on here and elsewhere. Our people are beginning to realize that we have far and away the highest standard of living in the world, not because we are smarter than anybody else, and not just because of natural resources, but mainly because we have had a form of government that has given individuals and private businesses a chance to use their energies freely and vigorously. If we ever lose that, we shall lose the very thing which has made us a great nation.

If any nation wants Communism or Fascism or any other form of Collectivism for itself, that is its own problem. We don't want it here, and we don't want others to try to impose it on us or on anybody else. Also, we do not see why, no matter what their government philosophy, other nations can't work with us to build a structure of world peace. That seems to me a fair statement of American belief. The thing that worries us is that we see the world moving away from sane cooperation, and not toward it.

What We Must Do About It

Just as this country is beginning to recognize more clearly the real problem it faces, so we are beginning to see what we must do about it. First, we must keep so strong that no one can push us around and we shall command respect. None of us likes the words "power politics," but whether we like it or not, power still has a lot to do with successful world politics. Germany and Japan went to war because they thought we were weak. They were wrong, but not by much. We can't afford to take the same chance again. Mechanical wars take a long time to prepare; the toll of unpreparedness mounts hideously.

This is an uncomfortable thought, especially when we find military expenditures listed at $18 billions in our first peacetime budget. It does not have to be so much regularly, for that still reflects war demobilization. But military costs will be larger than we like and will carry with them continued taxes higher than we like. Nevertheless if we are to fulfill our world responsibilities we must continue to have a strong Army and Navy. Most important, we need the application of science and careful thinking to tell us what kind of Army and Navy, and what kind of industrial organizations we shall need to be so prepared that others will not invite war. If we are wise enough, and give the matter enough attention, this can probably be done; and done without an overwhelming burden of expense and taxes.

We must also be strong in our diplomacy. A helpful and important bill passed the Congress last session providing for better pay and conditions of work for our representatives abroad. This was essential in maintaining a strong diplomacy. Another essential is a continued strong public interest. The sessions of the United Nations here will help. But banking and other groups like ours must plan deliberately to keep our eyes focused on these problems, to prevent them from slipping quietly into neglect.

Second, to our strength we must add infinite patience and goodwill in making the instruments of peace work. We are dealing with people we don't understand, and who don't understand us. We have to prove our good intentions by their constant reiteration and demonstration. We must think of these problems not as something to be disposed of by passing a law or concluding a treaty, but by the patient, unending, tactful labor over many years of the best of our citizens in public and private service.

Third—and this is the most important — we must put our own house in order and keep it that way. One needs to go abroad to appreciate this country's unique position. Literally the world looks to us as never before. From a distance our faults and our lacks fade into the glow of our prosperity, our power, and our skill. It is a position of danger, danger from envy, danger that power will make us careless, danger from the lack of thoughtful use of great power in a nation that believes in and practices individual freedom.

An immediate economic problem is whether we can avoid a boom and a bust. We are set for it, just as after World War I. It did great damage then and put the world back on its heels. It would be still more dangerous today. We cannot have serious inflation and deflation here without affecting every other nation in the world. But if such calamity is to be averted, we must in the immediate future remove the obstacles which are preventing production from getting into high gear, manage our budget and our debt wisely, and exercise, all of us, common sense and restraint in our behavior.

The greatest test we face is whether we revitalize or abandon our democracy. We have now the opportunity to show that freedom is the highway to progress; that we can relax the regimentations of war without losing our balance; that we can release the individual for creative efforts; that we can as a nation live by moral law and not by compulsion.

We are today in danger of forfeiting something of our great national heritage of freedom. In each community are people about us, good, intelligent, well-meaning people who advocate more power for the State, less freedom for the individual in banking, in education, in science, in medicine, in labor. Called by its real name, this is a drift towards totalitarianism, towards dictatorship. To stop this drift, to preserve our great heritage, will call for leadership of the highest quality, very practical, cracker-barrel leadership in each community, leadership that will resist the drift and restimulate the forces of individual initiative.

The best thing after all that we can do for the world is summarized in Hamlet where an old man is advising a younger one:

"This above all, to thine own self be true,
And it must follow, as the night the day,
Thou canst not then be false to any man."

Bank Supervisors Elect

Richard Rapport, Bank Commissioner of Connecticut, was elected First Vice-President of the National Association of Supervisors of State Banks at its final convention session in Cleveland, Ohio, on Sept. 20, it was reported by the Hartford "Courant" of Sept. 21, which added: He was previously Second Vice-President of the Association, and his new elevation puts him in line for advancement to the Presidency next year. Lynwood K. Elmore, deputy Bank Commissioner of Connecticut, was reelected Secretary.

Money in Circulation

The Treasury Department in Washington has issued its customary monthly statement showing the amount of money in circulation after deducting the money held in the U. S. Treasury and by Federal Reserve Banks and agents. The figures this time are those of Aug. 31, 1946, and show that the money in circulation at that date (including of course, that held in bank vaults of member banks of the Federal Reserve System) was $28,447,643,163, as against $28,253,878,909 on July 31, 1946, and $27,684,945,663 on Aug. 31, 1945, and compares with $5,698,214,612 on Oct. 31, 1920. Just before the outbreak of the first World War, that is, on June 30, 1914, the total was $3,459,434,174.

Banks and Small Business

(Continued from page 1800)

correspondent institutions where every aspect of postwar credit procedure was discussed. Fifty-two credit groups have been organized for local areas. More than $600 millions are available in these credit groups.

The groups have made loans to the extent that demands have been made upon them. But the great preponderance of loans made since the war ended have been made by local banks or by local banks and their correspondents working together. This is as it should be. The credit group was not designed to solicit business on its own behalf. Its function is to supplement the lending services of banks and its facilities come into play when it is called upon by banks which first initiate the business.

Results

Through publicity and advertising at the local and national levels which the commission has inspired banks to undertake, it is now quite generally recognized that banks extend to all competent people and firms necessary business and production credit regardless of the size of the loan. On the other hand, banks are not going to grant credit for non-productive purposes or to encourage gamblers to take chances with other people's money on visionary schemes.

Legislation

May I refer again to the work of the Small Business Credit Commission in Washington. As I said a moment ago, the guide in this phase of our effort was the convention resolution of 1943 against the continuance in times of peace of the wartime government guarantees of commercial and industrial loans by banks. Our work has been both formal and informal. Our informal efforts took place early in 1945 when the new Congress convened. At that time there was no banking legislation pending. We wanted to exchange views with members of the House Banking and Currency Committee, so we invited them to an informal discussion. The chairman of the committee and nearly all the members came. We presented the story of the commission, why it was formed, what it was doing, and what the banks were doing about small business, why we organized credit groups. We invited questions and got plenty. As a result, at the end of several hours' discussion we had run the full gamut of bank credit past and present. We were greatly impressed with the Congressmen, their sincerity and their grasp of the subject matter.

Later we appeared before the House Special Committee on Post War Economic Policy and Planning. At another time we told our story to the House Select Committee to Investigate and Study Small Business. Still later we were invited to meet with the Advisory Board of the Office of War Mobilization and Conversion. To all these committees we gave the complete story of what the banks were doing and were ready to do. Subsequently, we testified before the Senate Banking Committee.

Since the organization of this commission, we have had an opportunity to tell its story directly to nearly 100 leaders in Congress and in the Administration having to do with banking and small business.

At the state level, we were glad to accept an invitation of the Supervisors of State Banks to appear before their executive committee in Washington and tell of the progress of our work. This group has been most helpful in every way.

Formal Legislative Work

Most of the work in Washington I have thus far related came about while no legislation was pending. Our objective was to lay a ground work of education and understanding in the event that any bills in this field should later come to the hearing stage. Not long after these informal sessions we had our chance in a formal hearing. Several months before the end of the war, the Smaller War Plants Corporation came in with a bill to extend its life two and a half years. We opposed this two and a half year extension in both Houses of Congress and asked that it be limited to one year only. We suggested that if the war was still on at the end of that time, the matter could then be considered further.

The bill as finally passed gave the Smaller War Plants Corporation an extension of one year and a half. Such was the showing made by the Corporation at hearings before committees of Congress that members of the committees made it clear that they were no longer in sympathy with the idea of continuing its life. Members of Congress expressed confidence in the ability of the bankers to do the credit job for the postwar economy. As a result of these hearings, it was made possible for the President to abolish the Smaller War Plants Corporation soon after the war ended. The taxpayers were thus relieved of the expense of one credit agency that had ambitions to make itself permanent.

Reconstruction Finance Corporation

In completing my discussion of the Washington scene, I now wish to discuss our dealings with the Reconstruction Finance Corporation. I do with a feeling of real regret and deep concern. Every citizen has a right to be proud of the past performance of the RFC in depression and in war. Many banks sold the RFC preferred stock in critical depression days. The money derived from the sale of the stock reassured bankers and businessmen in a time of panic. I was glad as a banker and as a citizen to serve on my state RFC Committee.

The RFC has had many able men in its employ—men who know business and banking. A number still remain. Nothing I shall say to you on this subject is of a personal nature. In representing your commission, however, I must express disagreement with certain of their policies.

The RFC was, as you all know, a product of the depression. It was created to restore confidence and to inflate a deflated economy then in the trough of the world's greatest depression. Banks borrowed money from it, but never in its history has the RFC had better loans than these bank loans. Practically all the money represented by them has been repaid and that which has not been repaid still bears good interest. The only excuse I can find for government being in the credit granting business is a great depression or a war. Even then, it should lend wisely and charge interest so that the taxpayer does not have to foot the bill. After its depression or war job is done, the government should abolish such agency just as it did the Smaller War Plants Corporation.

Since the beginning of our commission we kept directors of the RFC advised as to our policies and progress. They approved. However, those directors are not there now. I am sorry to say that it appears that the RFC has gone the way of all governmental credit agencies. It is now dominated by bureaucrats.

Politicians have no place in banking, whether government banking, private banking or chartered banking. Their training makes them totally unfit for this service. This very definite conviction on my part accounts for my resignation from the North Carolina RFC committee several months ago.

The 75% automatic blanket guarantee agreement of the RFC, which is being widely and insistently offered to banks, will do greater harm to banking, the economy, and the taxpayer than anything ever before attempted. People think of this agreement as a respectable financial instrument because of the RFC's past record and sound judgment.

We have not previously stated our position on this matter because we had hoped that by the process of negotiation we should be able to persuade the RFC that its program is superfluous and downright evil.

This instrument offered to banks would automatically guarantee them against loss on 75% of their risk on any loan up to $350,000 over a period up to 10 years. For this the corporation charges ¾ of 1% which is deducted from the interest paid by the borrower. Congress has not been officially aware of what this means, nor does the taxpayer know what potential liability the RFC is putting on him.

I realize how appealing clever salesmanship can make this proposition appear. It is a sugar-coated deal which looks quite attractive when presented. But there are certain implications for banking and for the economy which ought to be pointed out.

In the first place there is serious doubt about the legality of it. It may well be a violation of the lending powers of the corporation defined in the RFC Act of 1934. The corporation was then authorized "to make loans to any business enterprise when capital or credit at prevailing rates for the character of the loan applied for is not otherwise available." This lending project goes far beyond that. There is plenty of qualified legal opinion in this country which holds that large-scale promotion of credit extension to business on the part of the RC even by the indirect device of underwriting the loans of banks on a mass basis was not authorized.

This automatic blanket guarantee arrangement does violence to the spirit of the legal limitations in both the Federal and state banking laws on the amount that a bank may lend to any one borrower. These legal limits were written into the laws for the specific purpose of protecting depositors of banks from the consequences of excessive lending. While during the war the portion of war purpose loans guaranteed by the government was exempted from these legal limits there is serious question as to whether the extension of this exemption to peacetime loans can be justified.

It is an encouragement of loose lending, and its effect will be to inflate the credit structure. It is as unnecessary as it is unsound since the banking system already has the machinery to do the job through proper, effective, and legal channels.

I know that field agents of the RFC are out calling on bankers trying to persuade them to sign this agreement. A number have signed under protest. Others have signed without protest, thinking it a good deal for them and their stockholders.

It may look like an attractive deal. "Avoid risks; increase profits"—is a very seductive slogan. But every banker who signs this agreement is playing into the hands of the enemies of chartered banking. As William A. McDonnell, chairman of the ABA Bank Management Commission, has so well said, "Here we have an opportunity to sell our birthright for a mess of guarantee."

If the RFC should be successful in attaining its goal of signing up 10,000 banks to its automatic guarantee agreement, how long do you suppose the American people will sanction the continuing of chartered banking? The only reason you and I have for existing as bankers is that we accept risks, appraise them intelligently, charge accordingly, and set up proper reserves against them thus insuring our loans as we make them. When we get away from these principles we have no right to call ourselves bankers.

Benjamin Franklin once said that those who give up essential liberty in order to secure a little safety deserve neither liberty nor safety.

Next year Congress will hold hearings, investigating the RFC, while considering the question of whether or not its life should be extended. Those bankers who are using this instrument and making profit out of it, should be ready to defend it and themselves with good answers, and especially be prepared on the point of the possible violation of federal and state laws regarding the size loan a bank can make to any one borrower.

It was significant to me that Congress gave the RFC only six months to live after the Senate had first passed a bill extending its life for five years. It has been my observation that the present Congress is not disposed to look with favor upon Government agencies that play wild and loose with government funds.

We have pleaded with the present management of the RFC to discontinue the automatic guarantee forthe following reasons:

1. We believe it will encourage loose lending practices and be a contributing factor to credit inflation. Officials of the Federal Reserve System have said that the banks, even without the use of this instrument, must be careful of credit inflation. This agreement with the RFC superimposes another inflation threat on those we already have. If the government is serious about the threat of credit inflation, it should discontinue the use of such devices.

2. It throws an additional liability on the government which already is over-burdened with financial responsibilities and liabilities.

3. If the government is going to assume three-fourths of the risks for bankers at a small fee, why should it not extend the practice to retailers and manufacturers, and also assume three-fourths of their risks? Why not socialize the whole economy?

4. The plan was announced for the purpose of being of "assistance to business in reconverting from

a wartime to a peacetime economy." Since reconversion has been completed, the guarantee should be withdrawn.

5. We question the authority of the RFC to so obligate itself.

In closing, I promise you the continued service of this commission in the developing of ever-increasing ways to meet the calls of business, small and large, that come to every bank in every community. I pledge you that it will keep on fighting this vicious RFC automatic guarantee program and every other attempt of government agencies to foist similar devices on the nation's economy, carrying the fight to Congress if need be. We shall keep chartered banking free. We shall meet the credit requirements of local business and the nation's business, as well, and we shall meet our obligations to support freedom of thought and freedom of action in this great nation of ours.

Fiscal Tasks Ahead

(Continued from page 1795)

will be about $8,000,000,000 if the present rate of sale continues. This program is absorbing a considerable volume of funds which would otherwise have been spent, and is helping to achieve a broader distribution of the public debt. I urge your continued support of the savings bond program—especially of the payroll savings plan and other efforts of the savings bond sales group to absorb spendable money through the sale of Series E bonds.

Interest Rates

Let us turn now for a moment to the subject of interest rates. It is sometimes urged that higher interest rates would aid in the control of inflationary forces.

It is my view that, for the present, no anti-inflationary purpose would be served by increasing interest rates. This is because it would interfere with the stability of the government bond market and would introduce uncertainties, which themselves might contribute to inflation. The immediate effect of higher interest rates might very well be to increase, rather than to decrease, the volume of currency and deposits. This is because the typical investor's reaction to the higher rates might be "wait and see," rather than "run and invest."

The stability of the bond market since the end of the war has eased the financial problems of reconversion, both for the government and for business firms. The stability of the government bond market results in a degree of business confidence which is of tremendous value in achieving and maintaining full production. *It contributes to the confidence of the public in the credit of the United States and in the enduring stability of the currency. We must not impair this confidence.*

In closing, there is one thought I would leave with you—so general in its nature as to be applicable, not only to the problems discussed with you today, but also to any problem important in the formulation of a sound public policy. It is that all our major problems can best be met of we Americans, all of us, remembering our heritage of accomplishment, of achievement over adversity, approach the future with confidence.

Not because the path is easy, but because we as Americans have thrived and will thrive under conditions that call for extra effort and united effort on the part of all of us.

I appreciate the opportunity to speak to you today. Again, I extend the sincere thanks of the Treasury Department for the cooperation which the banks of the country, as a vital and integrated element in the nation's economic structure, have given to the conquest of our common economic problems.

How Far Can We Protect the Investor?

(Continued from page 1782)

to classify as constituting fraud. In the exercise of broad discretionary powers, care must always be taken by him to insure that his position is sound. He should not be arbitrary or ill-considered or prejudiced in his actions but be diligent to ascertain and carefully weigh all pertinent facts in order to avoid being charged with wet-nursing the investor, stifling free enterprise, meddling with the functions of corporate management, and gazing into the crystal ball. It is therefore important that he have an open mind, and that he be reasonable and sound in his conclusions.

Most states when they affirmatively pass upon securities are careful to specify that such action should not be construed as an approval of the merits, value, or worth of the security. They realize that the seller of a security might use that as a sales argument; also that the purchaser of the security might otherwise charge the securities administrator with a degree of responsibility he obviously cannot assume. The securities administrator can, in effect, only apply the few tests specified in the law at the time he examines the application; he does not apply the many other tests which an investor could be expected to use in determining whether the security is a suitable investment.

It might be asked "What need is there to protect investors except against fraud?" I believe that the wave of stock speculation that we have experienced during the past two years provides an answer. Under the Common Law the principal element of fraud was misrepresentation. Presumably therefore, by giving an investor a prospectus fully disclosing all pertinent facts, favorable and unfavorable, the chance of fraud should diminish or disappear. It is argued that no matter how questionable the security is, if the investor has received a copy of the prospectus and fails to read it, he is in no position to complain. That is only a partial answer. Let us look at the investor.

In most cases he doesn't read the prospectus. It is generally lengthy, oftentimes involved, and hard to understand. In some instances I have had trouble understanding the prospectus myself. The average investor buys securities, not because he has carefully considered all the facts, but because he has a vague idea that it is going up in price. He usually bases this on something the dealer or salesman may have said to him. Even if he did read the prospectus he probably would still have only a faint idea of the risks he assumes when he buys. Generally speaking, he is a novice. In every period of great market activity many newcomers, with no past investing experience, are attracted. Even if a fraudulent or unfair practice were fully disclosed in the prospectus it probably would go unrecognized, if not unread. Investors generally have no broad background of investing experience, no conception of the mortality of enterprises, or of the degree of risk assumed in purchasing any security.

We rightly regard the business of the underwriter, dealer, or broker as a highly specialized business. But the business of investing money, of buying securities wisely, should require even more specialized knowledge. It is the investor who is the one who assumes the greater risk. Yet, we have these inexperienced investors who comprise the bulk of the number of investors buying securities today. They get in and out of the market at the wrong time and have only a faint understanding of what they are doing.

Some investors, helped by experience, have realized their own limitations in the matter of buying securities wisely. Mutual funds, or open-end investment companies, emphasizing diversification and expert supervision, have capitalized on that fact. I believe, in a great many instances they offer a much better approach to a reasonable solution to the average investor's problems.

However, on the one hand, we still have the great bulk of inexperienced investors in the market eager to buy any securities that are offered. On the other hand, we have the underwriters and dealers with a flood of new offerings, corporate financings and bail-outs. Only about 15% of the time does an ideal situation exist for the dealers when securities can be sold with practically no effort, and money can be made so easily. They want to make the most of their opportunity while it lasts, and many take a short-sighted view of the future. In the scramble to provide new offerings there has been a gradual deterioration in the quality of securities offered and an increase in the offering price. Questionable practices have arisen. While there have been good offerings, there have also been many offerings on terms grossly unfair to the investor; issues that should never have been sold. Can we say the investor is properly protected if we merely hand him a prospectus? I believe that our experience proves he is not properly protected thereby. I think that state regulatory commissions serve an extremely useful purpose at this critical time by going beyond full disclosure, and beyond ascertaining whether apparent fraud is present, to determine whether the offering is fair, just, and equitable in all respects. At the day of reckoning that inevitably follows any period of great public stock speculation, the securities administrator will be held to account by the public for the kind of job he has done. He cannot look to the underwriter and the dealer to apologize for him.

State securities administrators all want the securities industry to prosper. Such prosperity depends on the continuing confidence of the investing public. I can think of no surer way of destroying that confidence than by selling the public questionable or

(Continued on page 1814)

How Far Can We Protect the Investor?

(Continued from page 1813)

excessively priced securities issues.

In what ways can a securities administrator properly go beyond full disclosure and apparent fraud, into the realm of matters that tend to work a fraud or are unfair, unjust, or inequitable?

We might consider stock purchase warrants or stock options to underwriters or management. I believe the securities administrators on May 25, 1945 performed a distinct service for the investing public and for the securities industry itself, when they resolved that such options or warrants would be looked upon with great disfavor except in the unusual instances where they were justified. The inequities and abuses that so often attend the issuance of such options and warrants are already well known to all of us. One point recently sought to be made in justification of the issuance of warrants to underwriters in corportate financings was that they compensated the underwriter for continuing to give the company advice, counsel and assistance in many ways. Even if we assume that the underwriter is qualified by a versatile staff to render such aid and advice, the extent and value of such services could not well be determined beforehand and in any case such value would bear no relationship to the fluctuations in price of the company's stock.

A recent tendency has been for existing stockholders to issue and sell warrants to underwriters in connection with an offering of stockholders' securities. This removes the threat of dilution of the stockholders' equity. There might possibly be some question as to whether the threat of increasing the floating supply of securities might hinder the company in a subsequent corporate offering of the same issue. There still would remain the incentive on the part of the underwriter or dealer to stimulate investor interest in the security — to boost the price to an abnormal level for his own gain, — without disclosing his own position. On the whole, however, warrants issued by stockholders would seem substantially less objectionable than warrants issued by the company.

We might consider the question of offerings of stockholders' securities, or as they have sometimes been called. "bail-outs". While there have been many offerings of stockholders' securities on terms that have been fair and equitable, there have also been quite a number that are open to question. In many cases the common stock of a company is owned by one family or a small group. An offering is made of a minority interest, often up to as much as one-half of the stock. Generally, the sellers can assign valid reasons on their part for disposing of a portion of their stock. On the other hand the public is offered a minority interest in a small company, often in a distant state, at a high price. The sellers who have built up the company and know its affairs and prospects intimately have picked this as the most opportune time to sell their stock at an advantageous price. The invester, who cannot possibly know as much about the company, is asked to buy. The sellers, who still retain control, may have the company tied down to long-term employment contracts at high salaries, rent agreements with real estate holding companies which they own privately, etc. The public, being in a minority position, may be unable to compel the company to terminate or change such contracts if they become burdensome. It is esential that such stockholder offerings be examined closely to make certain that they are fair, just and equitable.

"Vendor's Profits"

During the past 2 years there have been a number of offerings with so-called "vendor's profits". These have usually involved the purchase of a business, or all the outstanding stock of a company by one or more underwriters and others, with a view of effecting a recapitalization or stock split-up and a subsequent public offering at a substantial profit. Any such profit should be subject to careful scrutiny. Unless it can be clearly shown that there has been a fortuitous purchase, or that something has been added, commensurate with the profit taken, such ballooning would appear to be unjustified. It would seem pertinent to consider the circumstances surrounding the purchase, the time elapsed and interim changes affecting the condition or outlook of the company, the change in management and capitalization, and the fairness of the price of the securities offered in comparison with others in the same industry.

There are of course many other factors that a regulatory securities administrator can properly consider such as excessive price, excessive discount, unconscionably high salaries, lack of proper voting power in Preferred and Common Stock, the syphoning of profits in devious ways, and so on. I shall not take the time to go into them here.

These are all matters with which the securities administrator of a regulatory state may properly concern himself in these times. While the conclusions reached may not be the same in all states, a sincere attempt at their solution cannot help but work for the betterment of securities administration and the securities industry.

The adequate protection of investors, however, depends on the efforts of both the securities administrators and the securities industry. I believe that the industry is today faced with an important problem. It has had the trust and confidence of investors who do not generally consider that they are dealing at arms' length with its members, but instead look to them for counsel and guidance in investment matters. It can readily dissipate that trust and confidence by avoiding responsibility and by continuing the marketing in a large part of questionable or excessively priced offerings. It is only by recognizing and assuming a greater degree of responsibility for the investor's welfare that that confidence can be retained and a sound future achieved by the industry.

Radio: Past and Future

(Continued from page 1783)

made many outstanding contributions to the radio art and industry. Among my friends here are companions without whose encouragement, cooperation and counsel the problems encountered across the decades would have been far more difficult to solve. To all of you who are present, and to many others who cannot be with us tonight, I wish to express my heartfelt thanks and appreciation.

Radio's Unending Evolution

Forty years ago, radio was so young that even a boy of 15 soon felt that he was a veteran. As one of the youngsters within whose mind and heart the spark of wireless kindled a great enthusiasm, I must confess that even now as I look ahead I feel very little older, for radio today appears no less filled with opportunity for growth than it was in the early days when dots and dashes were music to a young man's ears. We were only on the threshold in 1906. Great progress has been achieved, but as science measures time, we have witnessed only the beginning. We are still pioneering in the dawn of the Radio Age.

Forty years from now the instruments of radio which we marvel at today will be museum pieces, along with the coherer, the crystal detector, the headphones and the spark gaps. Long waves fascinated us in 1906; so did the sparks that crashed noisily across the gaps. Now microwaves, akin to light and generated in silence by electron tubes, are leading radio to triumphs in communication undreamed of in the beginning.

The pace of science has been swift and the challenge to the new art has been great. That pace will be swifter and the challenge still greater as the future unfolds. Because the wireless pioneers possessed faith and vision, and because the romance of wireless was so powerful within them, a vast new industry has been built, providing employment for hundreds of thousands of people, while millions enjoy the services that radio brings to them.

In America, radio has grown rapidly as a great public servant, not only because of freedom to speak and freedom to listen but because of the freedom of science to advance. Science must be free. We can permit no restrictions to be placed upon the scientists' right to question, to experiment and to think. Because America has held liberty above all else, distinguished men of science have come here to live, to work and to seek new knowledge. The world has been the benefactor and science has moved forward. In war, science dares the impossible; it must continue to dare the impossible in peace if a fuller life is to permeate society.

Radio has never ceased to stir the imagination; it has continually inspired research. That is why radio is always new. It has met the challenges of two World Wars and of the 20 years of peace that intervened.

Radio has become one of the world's great social forces; it educates, informs and entertains. Distance has been annihilated. All people have been brought within the sound of a single voice. A 9-word message has encircled the earth in 9 seconds! The face of the moon has felt the ping of a radar pulse and echoed it back in 2 seconds to revive predictions of interplanetary communications.

The evolution of radio is unending. It has produced television, radar and a host of other electronic devices and services. We still can foresee so many changes that those who follow us may wonder how we of this generation were satisfied to talk around the world and not to see at the same time. Our descendents will look back upon the radio services of this era and compare them, as a candle to the electric light, the horse-and-buggy to the automobile, the ocean liner to the stratoliner.

Already, the electron tube responds to our sense of touch, sound and sight. We shall learn how to make it respond also to our sense of taste and smell. The tireless workers of radio science will produce a radio-mail system that will be inexpensive, secret and faster than any mail-carrying plane can travel. Portable communication instruments will be developed that will enable an individual to communicate directly and promptly with anyone, anywhere in the world. As we learn more about the secrets of space, we shall immeasurably increase the number of usable frequencies until we are able to assign a separate frequency to an individual as a separate telephone number is assigned to each instrument.

New Weapons in War

Science is continually at work to produce new discoveries and new engineering developments. But we must bear in mind that our destiny is linked not alone with advances of technology but also with the further development of society. Unfortunately, new forces are being released by science which threaten to bring an abrupt end to all progress unless they are properly controlled and usefully applied. In radio, we have met the challenge of the electron and have harnessed it. Now we must meet the challenge of the atom, which has split open a new era—the Atomic Age!

Only three weeks ago I returned from the grim and unhealed battlegrounds of Europe. There amid misery and still-smoldering ruins, one feels acutely the dread with which mankind nervously contemplates the threat of biological warfare, atomic bombs and guided missiles with war-heads pointed toward death and devastation. Within the past few months "ghost bombs" have been reported flying over Sweden. They are said to emanate from a point 500 miles away. Their course is guided and controlled from that distance. Some observers believe they are self-destroying and during their flight overland their course is automatically changed so they will fall into the sea and leave no clue as to their composition or construction. These pilotless missiles streaking across the European sky and the atomic bombs recently exploded in the South Pacific cast ominous shadows on the horizon of the future.

We have witnessed the mere beginning of push-buttom warfare controlled by the long-range electronic fingers of radio. Only recently two pilotless Flying Fortresses were flown from Hawaii to California through daylight and darkness, through clear weather and fog, under the radio control of a mother plane. In war, they might have carried bombs or germs. At the Bikini "Operations Crossroads," radio and television controls were much in evidence as indications of what may be expected in a future war.

Let us not be complacent in the thought that we in America are safe from destruction because we escaped invasion in the war just ended. The Atlantic and the Pacific are no more protection to our country today than is the English Channel to the British Isles. Pilotless planes and rockets flying 6,000 miles an hour in the stratosphere can carry explosives, poisons or germs half way around the globe to wipe out entire cities in a deluge of radio-activity, fire, mist, dust, debris and disease.

It is frightening to recall that not a single V-2 rocket aimed at England during World War II was shot down. But even if new techniques could be devised to explode flying bombs in space, some of them surely would get through. Only a few would be necessary to ignite and to rip asunder great cities. Furthermore, there could be little protection against atom time-bombs that might be smuggled into a country by saboteurs who would plant them in strategic spots, to explode at the enemy's will by a touch of his distant finger.

What defense can man devise against an unseen enemy waging war in this way? What defense is there against a lurid streak across the sky—faster than sound, as sinister as death itself? That is the question anxious people ask in every quarter of the globe. I do not pretend to know the answer. On my travels through Europe and in discussions with noted men of science at home and abroad, I have found scant hope that any one has the answer for adequate defense against the new weapons of war that are capable of mass destruction on a world-wide scale.

Despite the fact that the handiworks of science are at stake, the scientist has little to say on how his discoveries and inventions are to be used. Inherently, he is a man of peace, but the products of his genius are often put to uses far afield from his original thoughts and motives.

If peace is the chosen course, scientists can turn their attention to the development of atomic power for industry and the conquest of disease. We would then hear less of biological warfare and more of new triumphs over diseases that have plagued man across the centuries, destroying him in greater numbers than war itself. The warlike idea that warm ocean currents could be shifted by science to turn fertile lands into deserts might be reversed in peacetime to modify or divert these currents to influence climate so that deserts would become gardens. With the aid of nuclear power plants desert areas might be transformed into habitable and productive regions.

There is even the possibility that one of man's greatest enigmas—the weather—may some day be controlled. One of our noted men of science recently told me that his studies of the problem not only suggest this possibility but that experiments are actually under way that may lead to man's dominion over the elements. For example, man may learn how to deflect air movements with consequent changes in weather and he may discover how to neutralize a storm or detour it from its course.

Automatic radio weather stations in remote places in the polar regions, in deserts, in jungles and on the seas can collect and broadcast weather data. Already radar spots a hurricane, peers into its vortex, plots its movement and photographs it from minute to minute. Radio-controlled and electronically-equipped rockets will permit exploration of the upper atmosphere. Within minutes new electronic computing devices can analyze such information on a global basis.

We may yet have rain or sunshine by pressing radio buttons! When that day comes, we shall need a World Weather Bureau in which global forecasting and control will have to be vested. Here is a poser for the isolationist and a poem for the internationalist.

Looking Ahead 40 Years

What is the shape of things to come in the next 40 years? The answer is difficult because the yardstick of the past is not always an accurate measure for the future. Most of the predictions of four decades ago fall short of present realities. And predictions that one might make today are likely to miss the mark of 1986. Scientific progress and prophecy both are dependent on the fertility of the imagination, and our imaginations are more limited than we like to admit. Achievement, however, is born and fostered by vision and imagination. Many great inventions have been made by young men endowed with future-mindedness. Although youth lives in the future and age in the past, yet it is not difficult for even the middle-aged of this generation to imagine world-wide television 40 years hence. International broadcasting, undreamed of 40 years ago, has taught us that in a science as universal as radio, reality surpasses prophecy. There will be many events and many discoveries to change radically anything that we foresee. An observation which today may seem trivial may become of utmost significance in the years ahead. Only a few years ago the elusive radio echo seemed a scientific fantasy, yet from it came radar, when wartime events called for it.

Necessity is credited as the mother of invention, largely because events often demand or force changes. The most difficult problems facing mankind are social and political rather than technical. Unfortunately, in the social and political spheres our imaginations cover a rather limited radius.

Many men will risk their lives to solve a scientific problem; few will risk their comfort or security to solve a social or political problem. Therefore, the most important problem of all is the selection of courageous, competent and wise leaders. That kind of leadership calls for more than mere exercise of authority; it calls for imagination, initiative, direction and guidance. People everywhere cry for such leadership. Upon it depends the future of democracy, the preservation of our freedom and the solidarity of peace.

But if opportunity is to be turned to good purpose, our country must be strong. The world has little respect for weakness. Often, weakness is associated with fear, and fear is not an attribute of peace and brotherhood. This nation must be strong morally and physically, not alone for its security but also for the accomplishment of its task in helping to rehabilitate a world suffering from the vicious aftermath of war.

With courage and vision, we must see to it that there is unceasing exploration not only in the physical sciences, but also in the political and social sciences. Only upon these forces can world unity be built and peace be maintained.

Man must learn to control himself as well as the new forces of science which he seeks to control. He must think not only of himself but also of his neighbors. He must recognize the fact that modern science has shrunk the world into one neighborhood. Now more than ever man must be the master of his fate. The frightening weapons within his grasp may yet prove the prime influence that will move him to concentrate on the problems of peace. But to achieve the blessings of peace, man must bring to these problems also his heart and his soul.

Friends, as we look ahead through the vista of science with its tremendous possibilities for progress in peacetime, let us not feel that we are looking beyond the horizon of hope. The outlook is not discouraging, for there is no limit to man's ingenuity and no end to the opportunities for progress.

Bull or Bear Market?

(Continued from page 1783)

New York or the other large seaport cities couldn't help but be "bears" during that period. Thus Russia and certain labor leaders are primarily responsible for the tremendous recent market losses.

Investors Necessary to American Industry

Of course, the thinness of the stock market has been a factor in the situation. When you draw a check on your bank, you immediately get your money; but when you give a broker an order to sell stocks, the situation is entirely different. He does not buy the stock; but, rather, must hunt around for someone else to buy your stock. Moreover, under the present unfair rulings of the Federal Reserve Board, the broker must find a man with ready cash to buy your stock. This is a rule that does not apply to selling anything else. This ruling should be amended at once.

In connection with the Communistic scare there is the possible bombing of certain large American cities. World War II could easily be reopened by England. Yet our government gives no protection to investors against such a catastrophe. With this additional unjust condition, the handicap to legitimate investors, is intensified.

I insist that most investors are rendering a legitimate service; the welfare of the country depends upon them. American industry could not exist were it not for small investors; there would be no employment were it not for small investors; and certainly very few consumer goods would be available were it not for small investors. I despise speculation. I myself have never bought a share of stock on margin, or on borrowed money, or advised anyone else to. On the other hand, I believe that the investor in American industry is entitled to as much protection as the man who invests in a farm, a home or deposits his money in a bank.

Protect Small Investors

During the bank panic, a large number of banks in this country closed. In most cases there was no need for them to close, but for various reasons—some political—they were forced to close. Millions of people lost billions of dollars — mostly unnecessarily. After this unfortunate event, Congress passed a law insuring bank deposits up to $5,000, or rather, putting a floor under such losses. In the interests of a better America, why shouldn't Congress protect small investors with a similar floor?

Dividend Payments In July 1946

Publicly reported cash dividend payments by corporations in the United States were 13.3% higher in July of this year than they were in the same month a year ago, the Department of Commerce said on Sept. 6. July payments amounted to $393,100,000 this year, compared with $347,100,000 in 1945. The Commerce Department's' announcement of Sept. 6 added:

For the three months ended July 31, 1946, dividends totaled $1,024,300,000, a rise of 5.4% from the $972,100,000 total in the corresponding months of 1945. The most outstanding gain for the three month period of 1946 as compared with the same period a year ago was a 36% increase in cash dividend payments by corporations engaged in trade.

Other non-manufacturing corporate groups showing gains in dividend payments for the three month period as compared with the same period a year ago, were: miscellaneous, up 17%; mining, up 16%; finance, up 10%, and heat, light and power, up 7%. Dividends paid by corporations engaged in communications were unchanged.

The railroad industry was the only non-manufacturing group registering a decline, which amounted to 9%. The decline was largely due to a change in the date of a dividend declaration by a large railroad company.

Dividends paid in the three month period by manufacturing corporations as a whole, increased 1% over the same period last year, but among the subdivisions there was considerable variation. Paper and printing, other manufactures, textiles and leather, and oil refining corporations each increased their dividend payments between 13 and 21%.

On the other hand, payments by most metal industries declined. Companies in the automobile, transportation equipment, nonferrous metals and in both the electrical and non-electrical machinery groups either reduced their dividend rates or made no common stock disbursements, the declines ranging from 4 to 24%. Among the metal industries, the only corporate group to increase its dividend payments was iron steel, up 2%.

N. Y. Savings Loan Associations Resources

Resources of savings and loan associations of the State of New York increased 8.1% or $59,158,759 during the first half of 1946, from total resources of $728,848,214 as of Jan. 1, 1946 to $788,006,973 on June 30, 1946, according to figures issued by Zebulon V. Woodard, Executive Vice-President of the New York State League of Savings and Loan Associations.

The League's announcement went on to say:

"Savings in these institutions increased likewise during this same period from a total of $631,490,900 on Jan. 1, 1946 to $692,904,791 representing an increase of $61,413,891 or 9.7% for the period.

"While the increase in savings and loan resources was 1.5% less than the increase shown for these associations for the same period of 1945, the increase in savings for the first half of 1946 was 28.7% greater than that recorded during the comparable 1945 period."

What's Ahead for Mortgage Investment?

(Continued from page 1780)

mand for mortgage money in the near future, if the boom does not collapse, but the supply of capital and credit seems more than adequate for any foreseeable demands. There may be a slight firming of the rates, but, in general, it will not amount to very much. On the supply side, the important thing to remember is our war created legacy of bank deposits and money in circulation. Today, we have some $100 billion more deposits and currency in circulation than we did before the war. This enormous holding of liquid funds is in the hands of the public—corporations and individuals—and can be invested over and over again so long as the bonds, which gave rise to the increase, remain in the banking system.

True, the Treasury is presently engaged in reducing deposits by redeeming obligations held by the banks, and hopes to reduce deposits still further by shifting bonds from banks to non-bank hands, both of which tend to tighten interest rates. True, as a result of this new Treasury policy, rates, particularly in the money market, have firmed somewhat. True, we have undoubtedly passed the lowest point on short-term rates, and have probably passed the lowest point on long-term rates. Nevertheless, do not expect very much in the way of an increase. The plain fact is that the government controls the interest rate. And, while the Treasury would like to reduce deposits and thereby establish a higher rate to fight the forces of inflation, there is the little matter of a public debt of some $264 billion dollars on which interest must be paid. They have not yet figured out a way whereby they can increase other rates and, at the same time, keep down the rates on their own borrowing. So, as I said before, there will not be any consequential increase of rates—at least, not until the problem of a differentiated interest rate is solved—and no solution is in sight now.

Question of Risks

The question of the safety of the mortgage brings up many, many other factors because of the interrelations of economic activity. These will now be considered one by one.

As is well known, the rate of business activity has a controlling effect on the volume of new mortgages and the safety of existing mortgages, so, it will be considered first. Business activity is currently at peacetime record levels; but the outlook is uncertain. If the current labor difficulties set off a nationwide wave of strikes which are "solved" by granting wage increases, we stand a very good chance of having a "boom and bust" type of economic purge. On the other hand, if prices can be stabilized around present levels for six or seven months, production, which is now beginning really to "roll," should remove the threat of inflation. We then could look forward to a fairly prolonged period of good business with slowly declining prices.

Mortgage lenders should ponder well the two alternatives facing America—boom and sharply lower prices, or stabilization and slowly declining prices. They both have one thing in common—lower prices. And, if anyone is relying on inflation to justify some of the present valuations, he should ponder the following straws in the wind: (1) Inventories at the end of July had reached the all-time record high of $30 billion, with inventories in some lines jumping as high as 20% a month. Clearly, the end of the inventory boom approaches. (2) Consider, in conjunction with the foregoing that a recent Federal Reserve Board analysis of a National Survey of Liquid Assets made by the United States Department of Agriculture, showed that "Total asset holdings of three-fourths of the people amounted to less than one-fifth of their annual income." In other words, disregarding unemployment insurance and assistance from relatives and friends, 2.4 months of unemployment will put 75% of our people on relief! (3) Or, consider the fact that in 1939, before the war, we had $39,588,000,000 in production facilities of all kinds. From July 1940 to June, 1944, this was expanded by $23,505,000,000, an increase of some 60%. An additional $4.6 billion of plant facilities were planned for completion as soon after the war as possible. Clearly, production facilities are adequate. (4) As a specific illustration of overproductive capacity in one field, consider the following statement recently released to the newspapers by the air transport industry: "By 1947, the passenger capacity of the airlines will be equal to that of the railroads in 1941." As if that were not enough bad news for the railroads, the President of the New York Central later in the week notified the Interstate Commerce Commission that he anticipated a deficit of nearly $69 million in 1947 if present freight rates are not raised—and, further, that even if rates were raised the 25% requested, the New York Central would still have a deficit of $18,652,000.

Obviously, excess capacity, higher rates and deficits do not make sense! Economic readjustment seems overdue.

Readjustments and Inflation

Now, will these readjustments, which are inevitable in many industries, cause wild inflation—inflation such as they have had in Hungary where it took 5,000,000,000 pengoes to get one dollar at the end of July? And, if we should have an attack of inflation, would real estate be a hedge against it? Well, the American people have just paid millions to learn that the stock market is no hedge against inflation. A great deal of real estate has been purchased with the idea that it is a hedge against inflation. When people learn better, such real estate will hang over the market. Furthermore, the greatly increased tax burden — Federal, because of much higher military and civilian expenditures; and State, because of higher prices and assumption of increased social responsibilities — which we will have in the atomic armament race days ahead, will weigh heavily on real estate. The crushing character of this tax burden is not yet realized because of easy money conditions, but lenders dare not underestimate it.

Effect of New Construction

Let us now turn to the construction outlook. New construction affects the safety of mortgages because it has an important influence on the value of existing buildings. New construction is also important from the standpoint of ability to pay interest on existing mortgages because, under normal conditions, we cannot have prosperity in the United States unless construction is in good volume.

The inability of the construction industry to get into high level production is an old story to all of you. Antiquated methods, low productivity of labor, actual labor shortages, governmental hindrances, a vicious black market, material shortages and hoarding are so discouraging that I shall not pain you with a detailed recital. There are two things, however, which I should like to mention. First, with all of the controls, and millions of subsidies, the Administration at Washington is able to report the completion of only 287,100 homes ready for occupancy during the first eight months of this year. And this total includes trailers and single room reconverted army and navy barracks and other wartime buildings. This compares very unfavorably with the 715,000 housing units which were erected by private effort in the year just before the war. The other statistics I want to give you is the information released by Myron L. Matthews, executive Vice-President of Dow Service, Inc., before the Society of Residential Appraisers in New York on Sept. 19. He expressed the opinion that about one-third should be deducted from present values to cover valuation decreases "when the bubble bursts." Documenting this conclusion, he said, "The house that cost $7,200 in 1939 now costs $11,000 within ceilings, and at least $14,000 if materials are bought over ceilings"—an increase of 53% if entirely within ceilings or an increase of 94% at black market prices. The housing shortage and black market prices are highly artificial props of present valuations. Clearly, they cannot last forever. The conclusion to be drawn is obvious.

Long Range Outlook Not Good

In contrast to the favorable outlook for the immediate future, the long-range outlook for real estate values is not good. Business property will be adversely affected by the many changes which will take place in the field of distribution. The terrific competition in this field will cause the construction of more and more specialized buildings, as it will be cheaper in many cases to build such specialized structures than to remodel present ones. Residential property appraisal, likewise, should be on a very conservative basis, as all old buildings have heavy **unrealized obsolescence** because of social changes in the American family itself, improved labor-saving gadgets and increased taxes.

When the new houses and apartments adapted to modern needs, such as lack of domestic help and smaller families, become available, they will have a very unfavorable effect on the values of buildings erected before the war even though at lower costs. Also, in your valuations you should keep in mind that women are having more and more to say about housing. They are not so interested in the beams and the solidity of construction. They don't worry about the foundation. They are not looking for a house which will last a hundred years; women don't like old things, except antiques! No, they look for gadgets and labor-saving ideas and devices. And, the last thing in the world the modern woman wants is one of those substantial old houses with 10 to 15 rooms, such as the one in which her mother worked herself to death!

Looking to the future, governmental subsidies in many different forms will adversely affect prices of existing buildings. Take the question of veterans' housing. You know that something is going to be, yes, has to be done about that. Yet, a National Housing Administration survey shows that, statistically, the veteran needs a purchased home of 4.6 rooms, although three-fifths of the veterans cannot afford to pay as much as $40 a month for shelter, and only one-fifth can afford to pay more than $50. The inflationary aspects of the loan guarantees and the other things we have already done are obvious, as the present system encourages veterans to assume financial obligations beyond their means. But, the problem is not solved, and you may expect more, rather than less, government interference or assistance. (It's interference, if the government does it for the other fellow; assistance, if done for you!)

More Public Housing

All along the line, higher costs mean more public housing, more "slum clearance." This makes private low income housing a bad mortgage risk. Luxury housing and luxury apartments, likewise, should be viewed with a critical eye. Higher taxes, declining business profits, and lower interest yield on inherited funds, will make the success of such ventures highly problematical. The middle classes are still sound, but they are having their difficulties. And, of course, wild inflation would destroy their solvency.

While the volume of mortgage financing is running nearly 100% ahead of last year, there is a competitive development which is also running far ahead of previous years. I refer to the vigorous revival of the trend of insurance companies and savings banks, where permitted, to develop, own and manage large housing properties. These agencies plan to invest directly in housing in the next two or three years more than in all previous history. A great deal of this investment will be in public assisted housing.

Now, to tie all of these things together and give you some idea of a sound mortgage policy to follow, under the pressure of the stupendous economic forces loosed by World War II, may I say that, in my opinion, we are riding the crest of the greatest boom the world has ever known, and real estate prices lead all the rest. The credit and financial structure is sound, but the price structure is very vulnerable. How soon we will have to come down and pay for our ride, I cannot say; but it will not be too long. Whether we will come down with a parachute or in the economic machine for a "belly" landing, I likewise cannot say. But we will come down, of that you may be sure.

What Policy?

Granting the foregoing, what policy then should be followed? First, let me say that many of you may disagree with my conclusions, because you feel the need for housing is very great. There can be no question about the **need**; it is very great and has been very great ever since the first settler landed on the Atlantic shores. But housing **needs** and the housing **market** are two entirely different things. As we say over in Kentucky, "It takes money to buy whiskey," and that means employment, wage income, so far as the whole real estate price structure is concerned.

True, our people have been on the march, which creates a need for housing. According to the Census Bureau, migration in the United States was greater during the war years than in Europe with its slave labor and forced movements of populations. To help house this great tide of humanity, however, 4,029,875 housing units were built or converted. Furthermore, these accomodations were built during a period when it was generally thought that construction was at a standstill, so the housing shortage is not as great as many think!

It is the inflation of real estate values which worries me the most. Value does not come from what is put into a thing. Value flows from what we can get out of it. Long-run real estate values are not being fixed by today's black market prices of labor and materials. It is the income of the American people which will determine the value of business property (disregarding taxes, labor costs of the business occupant, shrinking profit margins, etc.); and, it is the proportion of their income which the American people are willing to devote to housing which will determine the value of residential property. Therefore, do not be blinded by present costs.

The very future of mortgage lending depends on your appraisal and amortization policies, in the critical period ahead. Competitively, you may have to accept some high appraisals to get mortgages. If you are forced to do so, insist on very heavy amortization during the first two to five years. Such an amortization scale may permit you to lend safely at current levels. Or, in order to get the better mortgages, you might offer a declining interest based on the increasing equity flowing from amortization.

Danger Ahead!

Whatever you do, there is danger ahead. And remember that inflation, such as we have in real estate today, is like sin—everyone is "agin it," but often those who protest the loudest are the ones who practice it the most.

In conclusion, may I repeat what I said last March at the annual Home Loan Bank meeting here in Cincinnati. In your operations, a conservative policy is indicated if you believe building activity will be high in the next few years, as that will reduce the values of present buildings. On the other hand, a conservative policy is also indicated if you believe that the building boom will be short-lived, because without large scale construction activity, employment will not be satisfactory and payrolls will not maintain the present levels of rent and valuation.

Needed: A Free Gold Market for Stability

(Continued from page 1779)

the paper milreis. They pick out prices in the field of industry and commerce. They pick out these pegged rates and prices in spite of the fact that the men operating and experienced in these fields confess freely that they have the greatest difficulty estimating what these rate or prices should be. Men of experience confess frankly that they do not know what the prices and rates should be and they suggest that the best way to establish the rates or prices is to throw the components on to a free market and let competition establish the values.

Competition of Free Markets vs Statistics

During the last twenty-five years there have been countless examples of pegging rates and prices all over the world. There are certain definite limitations to statistics that baffle men's minds and there also is a speculative area in economics and financial problems that cannot be covered by statistics. It is much better to go as far as one can with statistics and then let a certain flexibility in the scheme operate so that a relationship can normalize itself in terms of factors that cannot be interpreted by the statistician. These factors, particularly in the field of economics which involves, of course, the underlying laws of human behavior, are obscure and intangible and very difficult at times to interpret at all. Accordingly, people wise in the use of statistics stop at a certain point and provide a certain flexibility in the scheme, which the statistics are supposed to interpret or govern, for the various forces or factors to come into some kind of natural balance.

In these processes of fixing prices, pegging rates and establishing cross rates of exchange and values of paper monies in terms of other monies and gold, I have observed these pegged rates and prices being picked out by groups of men who had a very starved background in the use of statistics at all, and yet, they had the gall, if you want to call it that, either to pick out pegged rates and prices without any statistics at all or else pick them out on a background of statistics that were very faulty.

Interference with the Law of Supply and Demand has Brought Only Confusion and Black Markets

During these years an infinite amount of damage has been done to production and distribution in my own country, and in countries I have observed abroad, by these presumptions of men. In other words, at a point at which a little humility would prompt them to say: "We haven't the faintest idea of what the rate or price should be, we might betther throw the thing on to a free market so that we can get some sense of the price or value from that"; they refuse to admit their lack of foresight and go along a route of presuming to know certain things that they don't know a damn thing about. Then they sound off loudly, letting on that they do know. They project the pegged rates or pegged prices into the scheme which they have at the time the power to control and the damage gets under way. The black markets get under way, or the local or international "wise guys" move in with a system to take advantage of the difference between the pegged rate and the rate that is real from the standpoint of the law of supply and demand.

In all of these experiments I never have seen it to fail that where a pegged rate or price is picked out of the air and established to govern commercial operations, it has the immediate consequence of stalling the market or in some way or other interfering seriously with the free movement of goods or the transfer of funds, meaning principally the payments of debts. In other words, I yet have to observe during all these years a single example where the law of supply and demand failed to work. If a price is put on an article of commerce that the public considers too high, the public won't buy it at that price. If the price is too low, the producers or merchants will not produce it or offer it to the public at the price that is too low. In other words, again I repeat that I have never seen any new formula projected by anybody anywhere in the world that is contrary to the law of supply and demand that ever worked. This whole long list of experiments to upset these laws during the past thirty years has provided a long list of dismal failures.

The Bunk of Inflation Control

Meantime, we have been putting up with a deluge of words poured into the public prints and over the radio fiercely prescribing one quack proposal after another for preventing inflation by pegging prices. Many of the speakers and writers talk as though men had just discovered these problems of how to earn their bread and live reasonably in peace with one another. Utter contempt is shown on every hand for the economic lessons of history, particularly in the field of inflation and money and prices, for the laws of economic behavior, for the painful and priceless lessons learned by previous generations of men as they sweated their living from this earth. In 1847 John Stuart Mill described these abuses of governments:

"When gold and silver had become virtually a medium of exchange, by becoming the thing for which people generally sold, and with which they generally bought, whatever they had to sell or to buy; the contrivance of coining obviously suggested itself. By this process the metal was divided into convenient portions, of any degree of smallness and bearing a recognized proportion to one another; and the trouble was saved of weighing and assaying at every change of possessors, an inconvenience which on the occasion of small purchases would soon have become insupportable. Governments found it their interest to take the operation into their own hands, and to interdict all coining by private persons; indeed, their guarantee was often the only one which would have been relied on, a reliance however very often it ill deserved; profligate governments having until a very modern period seldom scrupled, for the sake of robbing their creditors, to confer on all other debtors a license to rob theirs, by the shallow and impudent artifice of lowering the standard; and that least covert of all modes of knavery, which consist in calling a shilling a pound, that a debt of a hundred pounds may be cancelled by the payment of a hundred shillings. It would have been as simple a plan, and would have answered the purpose as well to have enacted that "a hundred" should always be interpreted to mean five, which would have effected the same reduction in all pecuniary contracts, and would not have been at all more shameless. Such strokes of policy have not wholly ceased to be recommended, but they have ceased to be practiced; except occasionally through the medium of paper money, in which case the character of the transaction, from the greater obscurity of the subject, is a little less boldfaced."*

Since we went off gold in 1933, our government has been undertaking the most revolutionary changes and the most revolutionary experiments in the use of money and the control of money as a means of financing. These changes are based continually on new ideologies in monetary practice. How tragic that these ideologies are not held up more definitely against a background of experience and observation before they are enacted into Government decrees that controvert economic laws. These experiments have precipitated many countries into economic disaster in the last quarter of a century. It is about time for us to stop, look, and listen before we plunge further into any new monetary experiments that threaten to precipitate us into economic shambles.

Supply and demand are the great economic regulators that adjust all economic values in free markets.

The Law of Supply and Demand

The effect of Price on Supply and Demand:

The supply of a commodity is proportional to the price, and the demand for a commodity is inversely proportional to the price; that is, the supply rises as the price rises, and the demand rises as the price falls.

The Reactions of Supply and Demand on price:

The price of a commodity is proportional to the demand for such a commodity and inversely proportional to the supply; that is, the price rises as the demand rises, and falls as the supply rises.

Further, the price of a commodity is proportional to the supply of money and inversely proportional to the demand for money; that is, the price of a commodity rises as the supply of money rises, and the price of the commodity falls as the demand for money rises.

The price of anything is an index of its value in relation to something else or to other things of value. These things not only must be necessary, desirable, or attractive, but they must be the products of our human brains, labor, and accumulated surpluses of labor (capital and brains). It was found through many generations of experience with trading in international commodities such as wheat and cotton most practicable to price these commodities in terms of gold.

Currency issued by governments, and credit projected by individuals and institutions, including governments, created a supply of pieces of paper which said in effect, "We promsie to pay on demand, or at some time in the future, so many grains of ounces of gold, for value received." These pieces of paper were put into circulation and served as money, which furnished a means of indexing values, or establishing prices for the exchange of goods. They were called **paper money.**

Prices eventually expressed themselves in terms of gold. Paper money prices coincided with gold prices when there was unqualified confidence that the currencies and credits were redeemable in gold.

Paper money prices fluctuated in relation to gold prices inversely with variations in the confidence prevailing that the paper was redeemable at par in gold. As the probability of redemption increased, the paper money prices were more nearly like gold prices. On the other hand, as the probability of redemption at par decreased, the gap widened between paper money prices and gold prices for the same commodities.

Obviously the amount of gold that provided the substance for a circulation of currency and credit was the principal factor affecting the probability of redemption. This probability of redemption was proportional to the amount of gold, and inversely proportional to the amount of currency and credit.

The real price of a commodity depends on the supply and demand for that commodity and the supply and demand for gold. The paper money price of a commodity depends on the gold price and the probabilities of the redemption of the paper money at par in gold. Since 1914, I have had a front row seat at many of the exhibitions in panorama of various governments throughout the world, including my own in putting on the paper money-inflation show. All of the scenes have followed a similar pattern.

We are already in the tragic climax.

While there is still time to avoid further tragedy, I hope my country will lead the way out.

Gold, throughout the ages, has served usefully as a medium of exchange and a foundation for credit, particularly when paper money has come to a bad end.

Return to the Free Gold Standard

Let us consider now some of the things we have to do to find our way back to sound money; and some of the things we must do to halt the rise in prices, and prevent a disastrous inflation.

First, we must cut down our extravagance and expenses in our national economy and stop increasing the supply of paper money of whatever kind, whether it is in bonds or currency or governmental contractual obligations. Any commitment of any kind or any undertaking by the Government of any kind that increases its obligations financially has a way of interpreting itself sooner or later into bonds and then finally into paper money. We must cut down the trend toward the increase in the supply of paper money, or we are just talking through our hats when we talk about preventing further inflation.

The second general thing we have to do is to find our way back to the gold standard. I am not going to suggest that we move back on the gold standard we had in 1933 when our paper money was valued at $20.67 for an ounce of gold. I haven't the faintest idea of what rate we should take at the present time for converting gold into paper money and converting paper money into gold. I understand that at the present time in some foreign countries

* Principles of Political Economy by John Stuart Mill. Fifth London Edition, Vol. II, pp. 21-22.

such as Egypt, for example, the American paper dollar is quoted at about $64.00 an ounce for gold. Here again, I would suggest that we refrain from having any presumption at all that anybody can put his finger on what the value of our paper dollar should be in terms of gold.

But the fundamental fact remains that we must find our way back to a Free Gold Market—on some realistic basis that will fit the facts.

We can learn much from history and experience that will help us. Again I quote from John Stuart Mill:

"In order that the value of the currency may be secure from being altered by design, and may be as little as possible liable to fluctuation from accident, the articles least liable of all known commodities to vary in their value, the precious metals, have been made in all civilized countries the standard of value for the circulating medium; and no paper currency ought to exist of which the value cannot be made to conform to theirs. . . .

"If, therefore, the issue of inconvertible currency were subjected to strict rules, one rule being that whenever bullion rose above the mint price, the issue would be contracted until the market price of bullion and the mint price were again in accordance, such a currency would not be subject to any of the evils usually deemed inherent in an inconvertible paper.

"Although no doctrine in political economy rests on more obvious grounds than the mischief of a paper currency not maintained at the same value with a metallic, either by convertibility or by some principle of limitation equivalent to it; and although accordingly, this doctrine has, though not till after the discussions of many years, been tolerably effectually drummed into the public mind; yet dissentients are still numerous, and projectors every now and then start up, with plans for curing all the economic evils of society by means of an unlimited issue of inconvertible paper. There is, in truth, a great charm in the idea. To be able to pay off the national debt, defray the expenses of government without taxation, and in fine, to make the fortunes of the whole community, is a brilliant prospect, when once a man is capable of believing that printing a few characters on bits of paper will do it. The philosopher's stone could not do more."†

In conclusion, I suggest that we return to a free gold market in order to avoid further disaster of paper money inflation. The law of supply and demand works in money and credit as well as in other markets in a free economy. A free gold market where anyone can buy and sell gold for United States dollars should be opened and the demand for gold would determine the price. Likewise, the paper monies of all other countries should be allowed to establish their real values in a free market for gold in New York. This free market for gold would quickly register the true values of paper monies as no managed system of exchange rates can ever do.

Such a free gold market would register the values of foreign currencies in American dollars, set the currency values of international obligations, and clear the way for freedom of trade in raw materials and manufactured goods in the international markets. Freedom of international trade can never be accomplished with regimented and uncertain rates of exchange and quota regulations. A free gold market in the United States would make way for multilateral trade throughout the world.

† Principles of Political Economy by John Stuart Mill. Fifth London Edition, Vol. II, p. 91-94.

our basic industries and raw materials.

The Longer-Range Outlook

At the present time, the high levels of business investment and consumer expeditures are still strong inflationary pressures. Demand in general is greater than supply. But as the nation's industrial machine becomes fully organized for peacetime production, business spending for inventory accumulation will decline. The increased flow of consumer durable goods, especially at present high price levels, will require consumers to increase their total expenditures far above even their current high levels if the goods are to be sold.

For the present, Government policies are coordinated and directed toward increasing production on the one hand and reducing total demand on the other hand. But if consumer spending or business spending should falter, due to continued price increases, declines in the stock market, or psychological factors, the government must be prepared to readjust its policies to promote an increase in consumption.

The first and most salutary action to arrest a decline could be taken by business itself in reducing prices—wherever possible—without reducing wages. There can be no doubt that in some industries the profit position is such that prices could be reduced and profits still be maintained at a satisfactory level. This will be even more true in the coming year as volume increases and unit costs come down.

Government would also have to be prepared to take appropriate action. Resumption of needed construction activities by Federal agencies would be an important measure to increase total wage and salary payments and stimulate business investment. For this reason, public works should be blueprinted and ready to go, even during the present period of sharp construction cutbacks. Tax and other fiscal policies would also require reexamination and readjustment. In any areas of the economy where monopolistic practices block the downward readjustment of prices by stifling competition, the government should take vigorous action.

Must Continue to Fight Inflation

Whatever the outlook for the coming year may be, during the rest of this year at least we must continue to fight inflation with every weapon at our command. Unless and until there is a clear indication of a downturn, we must certainly not reduce taxes. An all-out emphasis on production of finished goods and on preventing a further increase in prices is the task immediately before us.

Real Wages Decreased

It is thus evident that, while average wage rates have increased by a substantial amount, the money which the average working family has to spend per week has decreased since VE-day. With the rise of 11% in the prices of consumers goods between April, 1945 and July, 1946, real weekly earnings have decreased that much further. In comparison with 1941, greatly increased personal income taxes paid by workers constitute another significant factor.

This downward trend in real wages should and will be reversed. Basically the only cure lies in the output of more finished goods and services. Any significant decline in production, however caused, must necessarily reduce real wages of the workers of this country, and a general round of large wage increases now can benefit only special groups, and in general do so at the expense of fellow-workers throughout the nation.

Wage stabilization is a counterpart of price stabilization. Present policies represent a considerable relaxation from wartime controls. The situation is under constant study, and the Advisory Board of OWMR has been asked to consider the subject of wage stabilization, along with other stabilization problems. However, it cannot yet be determined whether there will be any major changes in present policies prior to the ultimate abandonment of government controls.

Fiscal and Monetary Controls

The construction of the scope of the Office of Price Administration throws a new weight of responsibility on fiscal and monetary methods of controlling inflation.

The principal fiscal weapon against inflation is, of course, an excess of the government's cash receipts over its cash expenditures. The fundamental cause of the present inflationary pressures was the substantial excess of government expenditures over government receipts during the war period. This excess of expenditures was, of course, necessary to win the war. This objective naturally had to transcend all others. It had been anticipated from the beginning, however, that fiscal and monetary measures would occupy an increasingly important position in the control of inflationary pressures as the transition from wartime to peacetime conditions proceeded.

As the liquidation of the expenditures arising from the immediate aftermath of the war has proceeded, the government has been able to throw the weight of its fiscal transactions in the direction of combating inflation.

In his mid-year review of the Federal budget for 1947, the President announced that he anticipated a *cash surplus* of $2.8 billion at the end of the fiscal year. This compares with a *cash deficit* of $16.8 billion in the fiscal year 1946 and of $45.8 billion in the fiscal year 1945.

The anticipated cash surplus of the Federal Government for the present fiscal year will exist even though there is a *budget deficit*

(Continued on page 1820)

Rising Prices Chief Threat to Economic Stability: Steelman

(Continued from page 1778)

Total production of private industry has moved ahead to a new peacetime high and now stands at an annual rate of about $172 billion. Durable goods are still lagging in some cases, but a steady and increasing flow of finished goods is reaching the market and will continue if we have a period of industrial peace.

Our Prospects

Any analysis of our present position, any look into 1947, must necessarily be made with prices as a big question mark after every conclusion. Nevertheless, business, labor, and Government must examine all available facts as a guide to policies and actions in the coming months.

Expressed in simple terms, the questions to be asked are these:

How much can our production increase in the next 6 to 9 months?

Can it increase enough to match the demand made effective by current income buttressed by past savings?

Will demand remain at its present level; will it increase, as production increases, to provide a steady market for full production?

Will business continue to maintain a high level of investment?

Production for Peace

The three main types of production should be looked as separately:

(1) Services, food, clothing, and other consumer non-durables;

(2) Housing and consumer durables;

(3) Non-residential construction and producer durables.

The first group—services, food, and other non-durable consumer goods combined—have been producing during 1945 and 1946 at a rate exceeding anything we have ever before known. While there will be some increases in categories such as clothing, it is doubtful if a large total increase in these goods and services will be possible within the next several months.

The output of producer durable goods rose from an annual rate of $5.2 billion in the first quarter of 1945 to $11 billion in this past quarter. Some increase is likely but none of great magnitude.

Non-residential construction is being curtailed by the housing program. It cannot be expanded until after the critical housing needs have been more nearly met.

Production of consumer durable goods and of housing, however, which have more than doubled since VJ-day, can continue to climb. The process of organizing the production flow for high volume is almost completed. The result should be a steady and expanded flow of finished goods, although it is not likely that we shall produce at capacity levels until next year.

How far we can continue to expand total production of all goods and services in the immediate future depends largely on industrial peace and the limitations of

Rising Prices Chief Threat to Economic Stability: Steelman

(Continued from page 1819)

estimated at $1.9 billion. The difference between these two amounts arises out of the fact that some items (such as terminal leave bonds) are counted as "budget expenditures" this year, although they will not require any cash payments until some future year.

The current high rate of government spending is a direct result of the war. Federal budgetary expenditures in fiscal 1947 will total approximately $41.5 billion. More than 44% of this amount represents expenditures for the national defense, and an additional 41% is for veterans' benefits, international finance, interest charges on the public debt, and other purposes arising out of the war. In the fiscal year 1940, on the other hand, total expenditures were only $9.1 billion, of which 19% was for national defense and an additional 18% for veterans and for interest on the public debt.

In order to curtail expenditures as much as possible, the President has directed the heads of the executive departments and agencies to effect every possible economy. He instructed the Secretaries of War and Navy to reduce their contemplated spending in the fiscal year 1947 by $1.65 billion and, in addition, "to examine the feasibility of still further reducing the military programs without impairing national security and the ability to fulfill our international commitments." Likewise, the Chairman of the Maritime Commission was requested to halve the expenditures for the current program of new ship construction, effecting a saving of $60 million. Federal agencies also were directed to curtail public works expenditures, and in some cases specific limitations were placed on certain programs.

The President's recommendations will result in some easing of the inflationary pressures not only by reducing the amount of money spent by the government, but also by making more scarce materials available for private use. For example, the curtailment or postponement of Federal public works construction at this time will make more building materials available for the Veterans Emergency Housing Program. The elimination of government competition from the market for scarce commodities should help in easing upward price pressures on those goods.

President Truman's Comment

President Harry S. Truman on Oct. 3, following the release of the Quarterly Report of John R. Steelman, Reconversion Director, issued the following statement:

President Truman

I have read Mr. Steelman's report on reconversion with interest. It shows that we are driving steadily toward peacetime prosperity.

Yet I should like to emphasize the sober note of warning sounded in the report. We still have an important battle to win—the battle of stabilization—before we can honestly say we have completed successfuly the transition from war to peace. And as we all know, the last battle in any war is the decisive one.

Every American can be proud of what we have done so far. Here are some of the milestones of the nation's progress:

Employment—Of our total labor force of 60 million, 58 million have jobs. For most of the 2 million who are looking for work, the periods of unemployment are short, and in most cases unemployed workers draw compensation while they are looking for new jobs.

Veterans—Ten million veterans are gainfully employed today, compared to only 2 million veterans at work on V-J day—a gain of 8 million jobs for veterans in one year.

But the total of unemployed veterans is still higher than any of us likes to see it—about 900,000, or almost half of the total of unemployed. It is the nation's responsibility to see to it that veterans looking for jobs get satisfactory employment at the highest level of their skills and at good wages.

More than 800,000 veterans are enrolled in college this fall and are receiving the education their country promised them under the "G. I. Bill of Rights."

More than 350,000 dwelling units have been completed and are ready for occupancy under the veterans' emergency housing program. This record is creditable, but we are going to make it better. The reconversion agencies are doing their utmost to speed up the construction of veterans' housing of all types.

Income and Consumer Spending—Business profits, after taxes, are at an all-time high in the nation's history, in spite of the fact that in some important industries they are still lagging. Income payments to individuals are also the highest in total they have ever been. Farm income, too, is at record levels.

Consumer spending is high—the public is spending at the rate of $126 billion a year for consumer goods and services, more than 20% over the war peak, and more than 60% over the pre-war peak.

Production—Since V-J day, total production of goods and services by private industry has moved steadily ahead, and has now reached the annual rate of $172 billion. Making allowances for increased prices, consumer non-durables such as food and clothing are still being produced and sold at a very high level.

Good progress has been made in the production of many consumer durable goods—we have already surpassed 1940 or 1941 production levels in the case of electric irons, vacuum cleaners, passenger and truck tires, electric ranges, washing machines, radios and trucks and buses. The production curve of refrigerators, passenger automobiles, gas ranges and sewing machines is rising, and during the next few months we should have an increasing flow of these and other finished goods.

All this adds up to a splendid achievement. But we must not pause to congratulate ourselves. A difficult struggle lies before us. We must do our utmost to keep industrial peace, to maintain production at present levels where it is high, and to spur it to higher levels where it is lagging.

I hope every business man, worker, farmer and consumer will take to heart this sentence from Mr. Steelman's report: "An all-out emphasis on production of finished goods and on preventing a further increase in prices is the task immediately before us."

Are We Facing a Permanently Higher Price Level?

(Continued from first page)

enced by the war-created inflation that was frozen into the economic structure. All of the clues indicate that the inflation potentials created in World War II are even more powerful than those of the earlier catastrophe.

Since a war does develop inflationary forces and since these forces must have a vital influence on the economy for a considerable number of years, it is advisable that this subject be thoroughly understood; a failure to understand it in the early twenties was a costly error. It is obvious that it is not understood in numerous quarters at the moment.

Increased Money Supply Frozen In

Some writers prefer to tackle this subject via the quantity-theory-of-money route. It is a fact that there has been frozen into the credit structure a huge increase in the supply of money. The total of bank deposits plus money in circulation is about three times the supply of money which existed in 1937. It is unlikely that there will be any material decline in this supply unless one can foresee a substantial reduction in the federal debt, or at least that portion of it that is now financed by the banks. It seems more likely that there will be a further increase as bank loans of all types more normally reflect the effects of higher commodity prices and the higher level of business activity.

Incidently, there is some discussion indicating a current shortage in the supply of money and credit. These intricate details can all be boiled down to one simple fact: the sensitive measuring stick of the relationship of money supply to demand—the interest rate—remains at a relatively low level, thus indicating a plethora of funds.

Rather than lead the theme of this subject through the intricacies of money theory, however, it seems to this writer that more good may be accomplished by using conditions and terms that are familiar to the average person and can be readily understood. Let us first examine the *causes* that will influence commodity price levels and then try to determine the *effects.*

Often there is a tendency to think of commodity price averages only in terms of farm products. Manufactured products are also a very important component, and, for reasons that will be apparent later on, it is more logical to consider these items before taking up farm commodities. Consider any manufactured product and try to determine what part of the price is *not* a labor cost. As is well known, the profit factor is only a small percentage of the selling price; the relatively unimportant interest charges do not include the labor factor, nor does a portion of depletion charges. However, labor makes up practically every other component of cost, including semi-processed materials purchased, fuel, rent, depreciation (the last two are merely the amortization of a capitalized labor cost), as well as the wages and salaries that go directly or indirectly into the production and distribution process. (How foolish it was to contend that wages could be raised 25% without raising prices!)

Labor Costs

Once we have recognized the major importance of labor costs as a factor in determining prices, we must examine the labor problem to find out wherein this component has changed materially in recent years. In contrast with prewar periods, either by law or by labor union fiat, we have frozen into our structure minimum wages, straight-time hourly wage rates about 65% higher than 1939-40, holidays and vacations with pay, longer rest periods, health and welfare benefits, limitations of productive activity and "feather - bedding" in various forms. One does not have to be a mathematician to realize that all labor costs have increased very substantially over prewar years, and *there is very little likelihood of a noticeable decline* unless it develops in the next great depression—which is unlikely to materialize until the supply of goods and services (including labor) is noticeably in excess of demand. This labor cost factor, together with the consequent higher dollar purchasing power, should be responsible for freezing into our commodity price structure an increase over prewar years at the very least comparable with the 45% gain that followed World War I and held through most of the 'twenties. As a matter of fact, the increase should be even greater because, at the present time, the labor forces are fully employed, unions are stronger, and the social and political factors are more propitious.

Farm Price Insurance

Now let us turn to the farm commodities. Under a federal law, the government is bound to see that the farmer obtains for his products a price which is at least 90% of parity—the latter being the average price of the things that the farmer buys, primarily the manufactured goods discussed above. This law will remain in effect for two years after the end of the first calendar year during which the President shall proclaim that the war emergency has been terminated. Political pressures are such that the legislation is more likely to be extended than terminated at the end of the two-year period.

It will be see, therefore, that farm commodity prices have a rigid floor at 90% of parity, regardless of the size of crops or any supply and demand relationships. Parity, in turn, will hold at a level much higher than prewar because of the labor cost factor. Hence, one cannot anticipate the catastrophic declines that took place in farm commodity prices in the 1920-21 period. It is true that present prices of some farm commodities are a fair distance above the 90% of parity level, and to the extent that supply and demand factors may warrant it, such prices could recede to the fixed level. But even so, when such prices are woven into an average, along with the prices of manufactured products, the extent of the decline in the over-all commodity price average would be small indeed when compared with the 1920-21 figure. Again we come to the conclusion that the level of commodity prices for quite a few years is likely to hold a gain over the prewar period at least as great as the 45% gain that prevailed during the 1920's.

Effects

Now let us consider some of the effects. Not only are these important, but there are many indications that they are not fully appreciated. If a corporation's unit volume of business is exactly the same as in some prewar year, its dollar sales would be at least 45% higher. If plant investment is at prewar cost, the dollar sales in relation to dollar investment would be at least 45% higher. Depreciation charges as a percentage of sales would be much lower until such time as the capital investment reflected the new higher costs. Interest charges would be a lower percentage of sales if the dollar charge remained unchanged.

A fixed percentage mark-up in setting selling prices would result in a larger dollar margin, and for the many companies who traditionally use this method, the dollar earnings would show a very sizable gain.

A new competitor would have to invest at least 45% more capital than the organization whose plant was based on prewar costs. His depreciation charges would be much higher. Furthermore, he would not invest the increased amount of capital to enter the competition unless he is assured that the particular trade involved has profit margins wide enough to permit him a reasonable return on his new capital. In addition, the present operator would not expand his facilities unless he, too, is attracted by the profit margin probabilities. It would seem, therefore, that the competitive factors, i. e. increased production and distribution facilities, will not increase until such time as present operators are obtaining an attractive return on their various businesses.

Technological Advances Slow

Over the longer term, technological advances will tend to decrease labor costs and prices, but this process is comparatively slow when considered as an influence on the broad economy. Furthermore, over a period of time, the tight labor situation may ease to a sufficient extent to permit an improvement in labor efficiency—less absenteeism and less labor turnover, and more labor interest in the job. These improvements, however, are not likely to offset the other increased labor costs for a long time to come.

Economic laws in actual practice represent nothing more than common sense coupled with rigid justice. This has been true ever since the day of the caveman, and will continue true as long as human nature contains so many degrees of good and bad qualities. If it is rigidly decreed that a person can obtain $20 a week for doing nothing, then the other factors in the economy are likely to adjust themselves toward the end where the $20 buys nothing. If political selfishness decrees that the farmer obtains more than his dollar proportion of the total economy then the inexorable laws of economics will operate so that the other factors will restore the proper relationship. The same applies to labor, management, politics, and any class or group that one chooses to consider.

The Impact on Securities

From a security viewpoint, we must logically try to determine whether the inflation which has so obviously been frozen into the structure will carry down to corporate earnings, dividends and stock prices. As pointed out earlier, present business concerns will not expand facilities or attract competition unless there is promised an adequate return on *new* capital investments. Normal growth trends, to say nothing of present pent-up demands, then will create a condition of undersupply, with a consequent upward pressure on prices and profits margins. It would seem, therefore, that sooner or later the inflationary factors must be reflected in earnings and dividends, and with an ample supply of credit there is no reason why these higher operating results should not carry through to equity prices.

It must be remembered that corporate profits represent a minor percentage of total national income (5.6% in 1945 versus 71.2% for compensation of employees). Excessive demands of labor, therefore, can never be satisfied by wiping out the profit margin. As a matter of fact, corporate profits could show a material percentage increase without noticeably altering the percentage ratio of this item to the whole economy. Even if corporate earnings were to continue last year's unusually low proportion of national income and if national income dropped 10% from present levels, corporate earnings would still approximate the 1941 level, which was 115% higher than 1937, 17% higher than 1929, and 147% higher than the 1936-39 average.

It is not the purpose of this discourse to suggest that the above forces should have any marked influence on the immediate action of stock prices. Temporarily, a strong set of fundamentals is rendered impotent by the refusal of labor to work. The data is presented to aid in the maintenance of a proper perspective of the inflation factor as it applies to long-term trends. There is too much skepticism about some of the dollar sales and earnings figures, which are materially higher than anything registered prewar. Such gains are not necessarily of a non-recurring nature. They are likely to be the rule rather than the exception.

There are millions of investors whose positions remain static, year in and year out, and who worry in times like these about the possibility that the prices of their equities will not return to higher than prevailing levels. The inflationary factor presented herein strongly suggests that the average price is likely to exceed those of the present by a material margin, even though patience might have to hold through periods of disturbance such as the present. In addition, the very fact that the inflation factor is present and will continue with us for a long time to come strongly suggests that cyclical low points in stock prices are likely to be much higher than anything that might be suggested by mere historical precedent.

Mitchell Trading Mgr. For Homer O'Connell

Joseph A. Mitchell has become associated with Homer O'Connell & Co., 25 Broad Street, New York City, as manager of the firm's trading department. Mr. Mitchell was formerly railroad bond trader with Merrill Lynch, Pierce, Fenner & Beane.

New York Stock Exchange Weekly Firm Changes

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

W. Averell Harriman, General partner in Brown Brothers Harriman & Co. became a limited partner as of Oct. 1.

Transfer of the Exchange membership of B. Burnett Carson to George Snedecor, Jr., will be considered by the Exchange on Oct. 17. Mr. Snedecor will continue as a partner of J. Robinson Duff & Co.

Interest of the late Leonard B. Keiffer in Beer & Company ceased as of Sept. 30.

Interest of the late Arthur E. Newbold, Jr., in Drexel & Company ceased as of Sept. 3.

Inflation, Interest Rates and Investment Policy

(Continued from page 1781)

liefs, hopes, prejudices and expectations of those whose dealings in the market make the price of credit. And, to make the problem even more difficult, we sometimes have to make allowance for variations in the pattern of official thought, since the markets for money are not free from official intervention.

In years gone by it was fashionable to believe that interest rates were a casual factor of great significance to the economy as a whole, it being assumed that a rise or a decline in interest rates would have a virtually automatic response in the future course of business. Today, however, much less weight is given to interest rates as a determinant of business and for our purposes here it probably is better to go almost to the other extreme and assume that movements in interest rates are the result of changes in business, prices, monetary policy and a host of economic, political and psychological factors.

Thus it is an essential first step in a discussion of the outlook for interest rates, to make some "guesstimates" as to the general shape of economic things to come. I have no illusion that it is possible to do so with precision.

Reconversion Outlook Obscure

With respect to the reconversion period from which we have not yet been able to extricate ourselves, it seems to me to be well-nigh impossible to predict *how* we shall break out of the current period of economic frustration or *when* we shall do so. The problems involved are not easily solved, for we are faced with the necessity not only of reconverting the physical facilities of industry and business—a process which has been largely completed—but also of decontrolling the Washington restrictions on prices, production, wages and profits, and of demobilizing some of the embattled elements of organized labor which have been carrying on intermittent warfare against industrial management by periodically blockading the key bottle-neck points in our economic organization. We have also to debunk some of the absurd notions about prices, profits, money, taxes and debt, which somehow gained acceptance during the past 20 years of inflationary boom, deep depression and global warfare. Reconversion in this sense has turned out to be a very difficult process, and there is a possibility that if it is delayed long enough we shall find ourselves engulfed in a wild price inflation followed by the inevitable bust.

There is also an ominous possibility that before the reconversion period has been completed we shall face one of the most serious crises of our history. It seems incredible that this nation, with its brilliant record of productive accomplishment, should face the threat of industrial paralysis at a time when domestic and foreign needs for our goods are so urgent. But that we can have, if labor organizations in many communities and industries simultaneously call out their members at the key points in our production, transportation and distribution systems. In my view the probabilities are against such a development, although the possibility will remain until by legislative or other means we achieve much greater stability in labor-management relations.

Another cause for concern about the immediate prospect is the possibility that the consumers' durable goods industries may have been forced to price themselves out of their markets. Prices of such goods have risen substantially — due in part to higher wages, in part to higher raw materials costs, and in part to decreased efficiency — to a point where many would-be consumers may justifiably feel that they cannot afford to buy. The picture of consumers' income is not unqualifiedly favorable. The reduction in hours of work per week and in number of workers per family has reduced the weekly incomes of a substantial number of our workers. Those who live on fixed incomes have had their gross cut by lower interest rates and their net reduced by higher taxes; and the purchasing power of what is left is lower because of the rise in prices. Farm profits have skyrocketed to levels which it would be folly to assume would be possible to maintain for long. Many workers have had little or no increase in dollar incomes, while their cost of living has risen; they are not likely to be purchasers of optional goods at higher prices.

Government policies have made the reconversion period more difficult and more prolonged than it needed to be. Restrictions on prices have curtailed production of many items of strategic importance to other industries, and have prevented the importation of goods which cannot be obtained domestically. Government intervention was expected to smooth the process of reconversion; it has, in fact, acted as a decellerant.

There is thus a *possibility* that we will face a great labor crisis, that business will bog down under government red tape and find that its rosy estimates of post-war markets have been seriously deflated by the rise in prices.

The immediate outlook is uncertain, but shall we accept the view—held by some—that we will never achieve full reconversion? My own feeling is that we are justified in assuming that the present phase of frustration will in time pass, for I am convinced that the great majority of the American people believe in and want to perpetuate the private enterprise system; that they are guided by a sense of fair play which will enable us in time to arrive at a basis for solving our labor problems without long strikes which are costly alike to labor and business; that they recognize that industry must have prices sufficient to permit profitable operation; that they are conscious and proud of the fact that American business and labor produced the goods which enabled us to win two World Wars and to lift the American standard of living to a point where it is the envy of the whole world. And I believe that the instinct toward productiveness is so great in this country that our people will not for long tolerate policies which keep the nation's economic organization in low gear and hold back its economic progress. I believe, furthermore, that the people of this country are not economically illiterate and that we shall before long see electoral and legislative evidence of that fact.

This is the basis for my assumption that in time we shall achieve a better balance in wage, cost and price relationships, get unnecessary governmental restrictions out of the way, and settle down to a period of high production and improved operating efficiency. We may have a long and rocky road to travel before we arrive at that state of affairs, but I am prepared to believe that we shall get there eventually. The outlook for production, prices and employment during the reconversion period must remain obscure and I think that instead of attempting to forecast what will happen we should adopt a "wait-and-see" policy. But the outlook for the post-reconversion period seems to me to offer somewhat clearer guides for investment policy.

Probable Characteristics of the Post-Reconversion Period

In order to appraise the trend of interest rates in the post-reconversion period, it is essential that we first try to picture what the general economic climate will be, list the major economic characteristics of the period, and plot out a rough pattern of economic developments. And that is what I shall attempt to do.

1. A High Level of Economic Activity

That we shall, when reconversion has been completed, witness a period of high-level business activity as compared with the 30s is strongly suggested by the fact that American business has several vast new markets to develop. These markets are the outgrowth of a combination of circumstances largely associated with the war—the deferred demands of consumers everywhere which accumulated during the war period; the fact of accelerated family formation, which provides a good solid market for housing and furnishings and community facilities; and the needs of great sections of the world not only for relief and rehabilitation but what is more important, to reinstate, to improve, to extend and to modernize their productive facilities. Another circumstance of massive significance to the markets of the future is the fact that millions of our people who were completely or partially unemployed during the depressed 30s, were raised abruptly to the middle income class during the war years. These people now have a considerable stake in cash, deposits and War Bonds, in addition to the prospect of continued employment at least during the next few years; hence, they are in a position to transform their wants into effective demands in the markets of the country. These demands are not likely to become effective until the cost-price readjustments of the reconversion period have been completed, but they are large enough to justify an optimistic appraisal of the post-reconversion business outlook.

No less important than these vast markets to which I have referred is the fact that we are in the midst of what, for lack of a better term, I have called the technological revolution. As a result of the war, many technical advances were precipitated that might otherwise have taken years to emerge from our scientific laboratories. And far from being just isolated developments in the broad scope of productive enterprise, these discoveries should find wide application in American industry during the years ahead. New methods, materials and machines capable of creating entirely new industries and of revolutionizing costs and standards of quality in others are awaiting exploitation, and this in turn should mean that the period of high-level business activity which appears in prospect should be a prolonged rather than a temporary one.

Another factor which suggests that the stage is being set for a period of high-level activity in the post-reconversion period is that many of the influences which caused business to remain depressed in the decade of the 30s seem likely to be less effective. Then our government had an anti-business complex, we were in a period of rapid economic, social and political reform, which drove capital into the storm cellar, we were plagued with under-investment and over-saving, which is highly deflationary in its effects on business, and the clouds of war were gathering. Today the outlook is far from clear but many of the militant reformers *have* been cast out of our government, the term radical is coming into disrepute, the urge for social, economic and political reform is on the wane, and new investment in capital equipment, community facilities and housing promises to expand vigorously, which should in time remove the threat of "over-saving." And while the international picture leaves much to be desired, in many respects it is not so ominous as it was in the pre-war period.

We are, I think, justified in expecting the level of production on the average in the post-reconversion period to be materially higher than it was in the dismal 30s.

2. Intense Competition

Another characteristic of the post-reconversion period — and one which should be of the utmost significance to investors — is the probability that it will be marked by intensely keen competition. In the course of time, we are sure to move out of the condition of scarcity which has prevailed during recent years in many lines of goods, out of the lush period of indiscriminate buying almost irrespective of quality or price, to a condition of easier supply and multiple choices among qualities and prices of goods and services, —in short, from a sellers' to a buyers' market.

Reinforcing the normal tendencies in this direction will be the many and highly significant technical developments which have come out of the war period. New industries mean new competition for the consumer's dollar. New techniques, materials and methods mean new low costs for those who take advantage of them. Presaging it from still another direction is the tendency apparent in many instances for business concerns to widen their fields of endeavor by entering lines of production, merchandising or service heretofore outside their spheres of activities, which means that they are new competitors of the old-line companies. In some fields of industry, the war period brought an expansion of facilities to a point much beyond anticipated peace-time needs and doubtless we shall have more expansion in some lines than actual demands will support. Moreover, it has been a fairly common experience of American business, even where excess capacity does not exist, to find that the break-even point has risen materially above what it was a few years ago. In addition, foreign competition can assuredly be expected to reassert itself in time. On the whole, it appears that the post-reconversion period will be marked by rugged competition, relatively low profit margins and a high rate of business mortality, which means that business risk may be immeasurably greater than it was during the period of easy war-time profits.

3. A High Degree of Instability

While a period of high-level activity appears in prospect it seems probable that a considerable degree of instability will be characteristic of our post-reconversion economy. Some of the markets to which reference has been made are more or less temporary; for example, the backlog of deferred consumption demands resulting from the war and those segments of foreign demand representing relief and rehabilitation needs will decline in importance, with first one industry and then another being affected. For a time, we undoubtedly face very heavy capital expenditures by business concerns, individuals and state and local governments, but these expenditures are likely to vary considerably from year to year. The problem of correcting maladjustments in wage, price and cost relationships is neither likely to be solved quickly nor without obstructions to production which at times may assume serious proportions.

Furthermore, it is to be expected that the government itself will at times contribute to instability in our economy. Although the concept of "compensatory fiscal policies" by the government is designed theoretically to offset irregularities in privately sponsored business activity, we know that in practice political as well as economic considerations will determine government expenditures. Tax policies also are likely to have a disturbing effect. They are a cumbersome control device, for the effects of a tax reduction or a tax increase on the budget and on business are likely to be considerably delayed. In the field of debt management and monetary controls, the government's frequently enunciated objective of keeping interest rates low is apt to find itself from time to time in conflict with the problem of curbing speculative fervor and preventing inflation. Government policy is likely to be determined by first one consideration and then the other with consequent aberrations in policy. Government is, I am afraid, likely to remain a factor making for instability rather than stability, and with the level of expenditures as high as it promises to be, changes in expenditures and deficits tend to have a magnified effect on the economy as a whole.

Other factors, such as changes in inventory policy by business, waves of speculative elation and pessimism, and rapid and wide changes in the climate of international affairs are likely to add to the instability which probably will mark the post-reconversion years.

This atmosphere of instability suggests that corrective depressions are likely to be experienced from time to time. In addition to the historical precedents for this view, the elements of instability mentioned above make it highly unlikely that we can escape depressions no matter how sincerely some students believe that we can do so.

On the other hand, there appear to be several good reasons for expecting that, for some years at least, a depression of the severity and length of that of 1929-34 ought to be avoided and that our corrective depressions may be sharp and severe but short in duration. In the first place, the money supply is so largely based upon monetization of the public debt—which at best probably will be subject to only gradual retirement—that a period of rapid and substantial credit deflation seems unlikely. The banking system, moreover, is much stronger than it was in the 20s and 30s in the sense that its resources consist principally of quality assets involving a minimum of credit risk. Therefore, the possibility of pressure from the banking system to contract credit, appears to be remote indeed, and it is to be remembered that we have never had a really serious depression such as that of 1929-34 without rapid and severe credit deflation.

4. A High Level of Prices

Inflation is already present in our markets and in a broad, overall sense, the natural pressures on prices are still upward, for the existing money supply is large and the monetary base is sizable enough, and capable of sufficient further increase so that it imposes no automatic limits on credit expansion such as formerly applied under the old gold standard. Under existing circumstances, when one price is forced upward unduly, the resulting maladjustment is likely to be resolved by increases in other prices. And we have in organized labor a powerful agency for raising wages in first one area and then in others. Here the vicious spiral works to perfection, for each successive increase in the wage structure means a rise in costs and provides the basis for further labor demands. And the monetary structure puts no limit on the process; in fact, the policy of compensatory spending by the government is inflationary in its implications for while under actual practice we get heavy deficits in emergency periods there is little or nothing in the way of surpluses in good times.

Yet there are some areas within the price structure where prospective demand-supply relationships suggest that downward readjustments in prices will occur in the course of time. While the areas of uncertainty and the possibilities of misjudgment are great, the following broad tendencies appear probable:

1. Agricultural prices are due for a decline when demands for our domestic products fall off, as they must when the rehabilitation of foreign production enables foreigners to compete with us in the world markets. Also, advances in farm technology should reduce farm costs gradually in the affected commodities. But, for a considerable period ahead, agricultural prices seem likely to remain on higher levels than they were pre-war for the reason that government supports are likely to remain.
2. Prices of labor seem destined to move upward under the impetus of pressure from organized labor, with only minor and infrequent setbacks during business recessions when labor reclassification and increased efficiency are likely to reduce actual labor costs even though labor rates remain unchanged.
3. Prices of non-agricultural raw materials may well trend irregularly upward because of increased labor costs, or reduction in the richest or most convenient sources of supply and probable increases in transportation costs.
4. Prices of finished goods should — when OPA restrictions are lifted — rise to compensate for increasing labor and raw material costs; thereafter what happens will depend on the outcome of the race between organized labor to raise wages and the scientists of industry to reduce costs, the end result being close to a standoff with possibly some tendency upward over the long future.
5. In the case of real property, prices of urban housing probably will decline from present inflated levels when building activity increases and current shortages become less acute, but with the later trend upward. Great variations are likely to be evident, however, from one area to another and in different types of properties.

Under these conditions, it would be surprising if we failed to have wide fluctuations in the broader price indexes as well as in the prices of individual commodities; but with the money supply as large as it is, with organized labor possessing the power to force wage costs upward, the longer term trend seems likely to be up instead of down for a considerable period ahead. But my inclination is to feel that the prospects favor a moderate rather than a wild measure of inflation.

The inflationary potential may well be much smaller than some observers believe it to be. Liquid savings, consisting of currency, demand and time deposits, savings bonds and savings and loan assets, have increased since 1939 by roughly $150 billions, which is an alarmingly high figure. But about $70 billions of these increased savings might be regarded as necessary to provide till money, pocket currency, necessary working balances and rainy day reserves, at the current higher level of national income, leaving about $80 billions available for other uses. However, since prices of consumers' durable goods are up about 55%, that $80 billions will purchase only as much as $50 billions would have purchased in 1939.

Figures such as these are not conclusive and it should be emphasized that the comfortable notion that "it can't happen here" is not to be accepted without reservation, for wild inflations are the result of great previous money expansions, scarcity in the supplies of goods and the use of banking credit to meet government deficits. That is too close a picture of what we have today for comfort. The argument that we cannot have inflation because of the ability of our industry to produce goods in great volume does not ring as true today as it did before labor-management relations became so troublesome.

Inflation and Interest Rates

The present situation does not, it seems to me, provide a clear answer to the question which plagues us all, namely, are we going to have more inflation and, if so, how much? But from the point of view of the trend of interest rates in the post-reconversion period, the important consideration is that we have already had a considerable degree of inflation, which means that prices are likely to hold on the average far enough above the levels of the prewar years to alter significantly the suppl-demand relationships for long and short-term credit.

This is true because the inflation we have already had means that

1. The proportion of current incomes required to meet cost of living expenditures has increased so much as to impair the ability of individuals to save. Inflation thus is a deflator of savings.
2. The effectiveness of war-time savings is reduced materially by the need for larger amounts of purely working funds in bank accounts and for larger amounts of currency for pocket money.
3. The purchasing power of the savings available for use is sharply curtailed by the increased prices of homes, automobiles and other consumers' durable goods, with the result that more credit will have to be used to finance the same volume of business.
4. The cost of public works projects, of new capacity for industry, of modernization programs and of all capital expenditures will be greatly enlarged, which means the dollar volume of new security issues to finance such expenditures will have to be increased.
5. Many corporations will need larger amounts of funds for essential working balances and for use in carrying inventories and receivables. In this connection it is interesting to note that while corporation cash balances have increased from $12 billions to a high of about $25 billions, their ratio to the dollar volume of business being done is not much higher than it

(Continued on page 1824)

Inflation, Interest Rates and Investment Policy

(Continued from page 1823)

was before the war. Many corporations are finding that while their cash balances are larger than ever before, they have little or no "free" funds, and they are already arranging for credit accommodation.

From another point of view we are in what might appropriately be called the "effective" rather than the "build-up" stage of inflation, a fact which has important implications for the money market. In the build-up stage during the war, the supply of available money for investment was continuously increased, but the rise of prices and therefore the demand for credit was more or less closely limited or controlled. The use of money was restricted in a number of ways — by rationing and price control, by the unavailability of many types of goods and by patriotic appeals to maximize savings and to funnel them back into United States securities for use by the Government. The vital point is that while money supply was being inflated rapidly and substantially, prices rose slowly and moderately. Thus the rise in the supply of funds available for investment greatly exceeded the demand for credit accommodation.

In the effective stage of inflation, the emphasis in the money-supply and use relationship is shifting in important respects. Money supply is rising slowly but the use of funds is now much less restrained, and we are in the phase when yesterday's inflation in money is finding expression in today's inflation in prices, with a consequent increase in the demand for credit.

Interest Pattern Change Essential

Thus the inflation we have already had and the threat of more to come poses a very difficult problem for the monetary and banking authorities. They would like to shift from pro-inflation to anti-inflation policies but they would, of course, prefer to do so without disturbing the level of interest rates. The more imaginative of our monetary authorities have devised all sorts of newfangled schemes to enable them to work the miracle of keeping funds so freely available that money rates will be low and at the same time preventing the use of the funds from supplying additional inflationary pressures. But Congress has lost its interest in complex monetary schemes, Keynesianism is less popular in high places, and few people understand or care much about the intricacies of monetary policy. Therefore, I think we can be reasonably sure that the authorities will reluctantly in the end have to fall back on the more orthodox techniques of restricting the amount of reserve credit available to the banks. They will do so gingerly and by fits and starts, after trying all sorts of expedients. But they have no alternative in the end but to make the change, for they must in time recognize in official policy the fact that if we are to have prosperity bank loans will rise, and if we are to avoid the danger of converting that prosperity into a short-lived inflationary boom, banks must be placed in a reserve position where they will reduce their holdings of securities as they increase their bank loans.

Summary of General Characteristics of the Post-Reconversion Period

The post-reconversion years thus seem likely to be marked by a high average physical level of production, an intensification of competition with an increase in business risk and in business mortality, a high degree of economic instability, a generally higher average level of prices than in the 30s, and the adoption of anti-inflationary monetary policies by the banking and monetary authorities.

The Outlook for Interest Rates

If this picture of the post-reconversion period turns out to be reasonably close to reality, we are likely to experience a material increase in the demand for credit in relation to the volume of funds available for loans and investments, a rising trend of interest rates, and a shift from a buyers' to a sellers' market for money.

The trend of long and short-term interest rates should be upward for the reasons cited previously, but it is likely that the rate of advance will be slow and that while the level of interest rates will be rising, it can still be regarded as low by those who have developed an emotional attachment for cheap money, as well as by those who have gone on record with predictions that rates are to remain low for a long while ahead. It is not quibbling however, to point out that the amount and rate of change in interest rates is a most significant consideration for investors, whether or not the rate is low by historical standards. The rise in rates in the post-reconversion period should be slow and moderate because banks no longer pay interest on demand deposits, which anchors the short end of the interest rate curve to a lower level than in the 20s; because the low interest rate philosophy is deeply imbedded in our official thinking; because with gold stocks as large as they are and the Federal Reserve possessing greatly expanded powers to make that gold effective, the authorities have the power to hold any rise in rates in check; and finally because the interest cost on the public debt is a powerful argument for moderate rather than spectacular changes in rates.

The situation which I have projected should in time bring many changes in the relationship between the rates on various types and qualities of credit. During recent years, under the influence of prolonged easy money conditions, the differential in yields between prime and second grade credits, both in the bond market and the bank loan market, has been cut to an abnormally narrow spread. This tendency is likely to be reversed in the period ahead; and the market for second grade bonds would appear particularly vulnerable because of the extremes to which it has been carried. Automatic profits on a "cost plus basis," which were so prevalent during the war, are in for a drastic change during the highly competitive conditions in prospect and when the volume of new issues is increasing the discriminating investor will be under much less pressure to compromise quality in the interest of maintaining income.

In the mortgage loan market, the quoted rates may not rise very much, if at all, but the elimination of free absorption and of premium payments by the buyer may raise the effective rate.

It is probable that at some time early in the post-reconversion period we shall be able accurately to describe the market for credit as a sellers' market. In the first place the demand for bank credit is likely to increase to finance export trade at the high level which most observers expect, to supply the funds for a rise to a new all-time high in consumers' credit, to supply the construction loan funds necessary when the building industry is active and to meet the needs of business corporations for additional funds to expand inventories and accounts receivable. And if because of the ever-present threat of inflation, the monetary authorities hold total bank credit expansion in check, then the banks will be under the necessity of disposing of other earnings assets as they make new loans. This would represent a sharp contrast with the conditions not many years ago. Then banks had billions of dollars of excess reserves and a new loan added to income by the full amount of the interest received. Under these conditions borrowers could shop around among the banks with very good prospect of getting a lower rate, longer maturity and more favorable terms. Today with excess reserves largely eliminated, with bank holdings of short-term securities near the indispensable minimum, banks face the prospect of having to sell intermediate Government securities to make loans, which means that at current rates some of them would lose more in investment income than they would gain in loan income. That they may do for a time, but eventually earnings pressure is likely to make the sellers of credit tighten up on the rate and the terms. In the second place, the building industry should, once it gets into high gear, produce new mortgages at a rate of several billion dollars per annum, which would mean in all probability that the institutions you gentlemen represent may well be able to fill all or most of their investment needs from new mortgages. And if that is the case, I suspect that you will be less interested in competing with the banks for loans at low rates and generous terms, and the buyer of credit will be less likely to be able to shop around successfully.

Other investors may soon find that it is much easier to supply their needs for investment media with a large volume of World Bank issues coming on the market; with corporate new security issues as high as they must be in a period of rapid technological progress, and with large amounts of new municipal securities being offered to finance necessary improvements. We thus may move out of the period when investors have found it difficult, if not impossible, to meet their needs for new securities and when the statement — "What else can you do with the money?" — was the clinching argument for purchasing securities of lower quality, longer maturity and smaller yield than could under normal conditions be justified.

The outlook for United States Government securities cannot be divorced from the generally changing environment which we have outlined, although such securities will certainly occupy a preferred position in the portfolios of our great financial institutions for many years to come. But the money market is not rigidly compartmentalized; the natural pressures on interest rates will be upward and for the first time in many years, sizable outlets for investment funds in other than Government securities should be available not only to individuals but to institutional investors.

Furthermore, I suspect that as times goes by, inflationary pressures will force the abandonment by the Federal Reserve of its commitment to buy unlimited amounts of Treasury Certificates in order to hold the rate on them down, for that action is required if Federal Reserve policies are to be effectively anti-inflationary. I also regard it as likely that the Treasury will wish to correct the unbalance between long and short maturities by the offering of fairly large amounts of long-term securities. Finally, it is conceivable that official quarters will in time adopt less rigid ideas as to the desirability of an artificially low level of interest rates and as to their powers to maintain such rates in the face of expanding credit demands. They might even see fit to adopt the rather old-fashioned policy of setting the rate on new offerings for the purpose of getting the maximum amount of funds instead of to pay the minimum amount of interest.

This raises an interesting question concerning the durability of the sacrosanct 2½% rate on long ineligible United States securities. I am prepared to grant that that rate is likely to be maintained for some time because the monetary and banking authorities have given strong assurances on this objective and there is little reason to question their ability to fulfill it for a somewhat indefinite period ahead. But I am also inclined to think that in time, under the circumstances outlined above, our monetary and banking authorities may find it neither desirable nor possible to adhere to the 2½% coupon rate on long-term Treasury obligations. The 2½% rate may not be as invulnerable as some observers would have us believe.

Investment Policy

I shall not dwell on the policy implications of what has been said, but it does seem that if this picture of the post-reconversion period is reasonably close to actual developments, then it is time to give some thought to the advantages of the old-fashioned but time-tested standards of investment management. In the first place, with the economic environment likely to be marked by a high degree of economic instability, with intensified competition and increased risk, and with the outlook varying so much between different industries, quality considerations and diversification of risk should be given increased weight in the selection of securities for investment portfolios. The risks of compromising with quality are likely to be much increased over what they were during the bull market in bonds. In the second place, if the trend of interest rates is upward we had better try to forget the notion,—popular during the past few years,—that "maturity doesn't mean anything any more," and I suspect that investors will find it to their advantage in the long run to return to the practices of evenly staggering maturities and matching up their maturities with prospective needs for funds. We may well be moving into a period when those who seek increased income at the expense of quality and those who speculate in long maturities with short term money will find that their gain in current income is small as compared with the losses in principal which may have to be absorbed later. The times call for caution.

Fargo Balliett to Be Partner in Reich & Co.

Fargo Balliett, member of the New York Curb Exchange, became a partner in Reich & Co., 39 Broadway, New York City, members of the Curb Exchange on Oct. 1. Mr. Balliett was formerly a partner in Burke & Co. and Mayer & Lann. Prior thereto he did business as an individual Curb floor broker.

The Future of Atomic Energy

(Continued from page 1778)

a. Development of the uranium industry beginning with mining the ore and following through to the raw materials necessary for operation of fissionable material plants.

b. Construction of two major fissionable material plants at Oak Ridge, Tennessee, and Hanford, Washington.

c. Construction of atomic bomb assembly plant at Los Alamos, New Mexico.

d. Operation of all of these facilities and construction of several atomic bombs at least.

e. The final surrender of Japan and the end of World War II.

Contrary to common belief, scientists were not solely responsible for the development for military uses of atomic energy. Engineers and industry also contributed to a major degree. The true situation was stated very succinctly by Colonel K. D. Nichols shortly after V-J Day. Colonel Nichols said: "The public is prone to hail the inventor and the final product and to overlook the engineering and construction that is essential if the idea of the former is to be translated into the latter. The engineering problems . . . were numerous, unique and staggeringly difficult, the time schedule only slightly short of impossible."

Let us see what the record shows as to the relative magnitude of the work carried on in the fields of engineering and research during this development period. These may be visualized by an analysis of the expenditures made by each group. The figures appear in the statement of expenditures submitted by General Groves in testimony before the McMahon Committee. Three principal processes were enumerated. The amount spent for engineering and construction expressed in millions is 500 for the diffusion process, 317 for the electromagnetic process, and 302 for the metallurgical process, exclusive of housing. The amount expended on research for those three divisions was $45,000,000, $33,000,000 and $42,000,000, respectively. In other words, if we take the percentage of the whole combined engineering, construction and research, about 90% was spent for construction and engineering and 10% only for research. In addition to construction and engineering, the operating organizations are largely staffed by engineers and, to a very limited extent, by scientists. Probably the percentage there was also of the order of 90 to 10.

Let no one say that the engineer will not be called on to bear the heaviest burdens in the years to come.

B. Progress in Past Year—V-J Day found us feverishly operating all completed facilities to their utmost capacity and completing plant construction. During the past year construction has been completed, plants have been operating 24 hours per day and seven days per week; efficiencies have been improved, costs have been reduced and plant capacity has been increased. A recently published statement gave present production as several times that on V-J Day. Much of this has come about through continued operation, but particularly from lifting the veil of secrecy. This condition has undoubtedly resulted in constantly enlarged stock piles of fissionable material and completed atomic bombs.

C. Manhattan District Plans for Future—At the present time the entire operation is under the direction of the Corps of Engineers through the specially constituted Manhattan District. Operations may be expected to continue as at present until the creation of a new Atomic Energy Commission. Additional plans recently announced include a research and development program which will include new facilities and extensions to existing facilities under Government sponsorship at five locations throughout the country.

3. Atomic Energy Commission

During the past year Congress has passed the Atomic Energy Act of 1946 and it is under the provisions of this Act, and under the direction of the Commission that it creates, that the entire atomic energy industry must operate. It is therefore fitting that we examine the makeup of this Commission, its powers and its responsibilities.

Provisions of the Act indicate clearly that Congress intended to create the most capable and powerful Commission in our Government. The Commission will comprise a Chairman, four other Commissioners, a General Manager, and four Directors, heading the divisions of research, engineering, production and military application. The effort which the Congress made to insure a strong capable Commission is indicated by the fact that the salary paid the Chairman exceeds that of the members of the President's Cabinet. The salaries of the Commissioners and the General Manager are set at $15,000 per year, which is the same as the Cabinet members' salaries, and the salaries of the Directors, $14,000, exceed by a substantial margin the salaries paid members and heads of most other independent commissions. It is to be hoped that the President will recognize the challenge and will appoint the best Commission possible. To guard against the appointment of any misfits, the Bill provides that the initial appointees shall hold office for a period of two years only, and that entirely new appointments shall be made at that time for the normal five-year tenure of office.

The Act also provides for two advisory committees, namely, Military Liaison Committee appointed by the Secretaries of War and Navy, and General Advisory Committee consisting of nine members appointed by the President from civilian life. The function of the latter Committee is to advise the Commission on scientific and technical matters. It is the evident intent of the Act that the advice of the General Advisory Committee would be sought mainly on non-military matters.

The Atomic Energy Commission will inherit entire atomic empire, including plants, finished and semi-finished bombs, and all other property now held by any Government department or agency which pertains to nuclear or atomic processes. It will have sole power over the entire industry, starting with uranium ore in the ground, up to and including finished products containing and produced from uranium. It will also take over all patents and contracts and secret information and, subject to the direction of the President, it will have sole power for disseminating information and distributing uranium products, including bombs.

If, for instance, one of our industrial concerns or one or a group of our electric utilities wish to develop processes involving atomic energy utilization, permission must first be obtained from the Commission to do so. The Commission may then allot sufficient stocks of uranium or fissionable material to the project either free or on terms it fixes. It may also bear part of the cost by making grants in aid, or it may even finance the entire development.

4. Future of Atomic Energy

A. Military Aspects—No discussion of atomic energy can overlook the military aspects. We as engineers are vitally interested in seeing that the international situation is cleared up at the earliest possible moment. To the extent that our plants must operate for military purposes, just to that extent are they hindered from producing material for peacetime purposes.

No one who has gone through the engineering and development work which led to production of bombs can do other than to conclude that it will be a decade before any other nation can vie with us in atomic bomb production. I venture to predict that our research program, if implemented with proper engineering development, will keep us in the forefront for a generation at least. During that time it behooves us to settle the international situation so that it will never again arise to threaten us.

We have the bombs. We have the production facilities. We have the engineering know-how. We have the industrial plant to implement that know-how. It would be the height of folly for us to throw away the advantages which this position gives us, except on our own terms. Nearly a year ago, in a paper delivered before the Boston Section at the Harvard Lecture Hall, I outlined a program whereby we might permit the Security Council of the United Nations to direct us to use our bombs for punitive measures. At that time none of us could visualize the studied non-cooperation of the Soviet Union. It seems to me that the time has now come when we must go forward with a plan for the control of the atomic bomb based on associating ourselves with those nations which are favorably disposed to our plan. Let the Russians stay on the outside if they do not care to come in. When, and as they do care to come in, we can entertain their application.

It may be claimed, in opposition to such a plan, that we may be subjected to another Pearl Harbor at the hands of some unfriendly nation not a member of the atomic energy group. I see little danger of such a contingency as long as we have a large stockpile of bombs. Let us suppose some nation was fanatic enough to make a sneak attack on some of our coastal or industrial cities. Suppose they badly damaged New York, Pittsburgh, Philadelphia and Boston, and paralyzed our industrial production at those points. Fearful as such a contingency would be to contemplate, it would not protect the aggressor nation against rapid and highly destructive retaliation. We would not be foolish enough to have bombs located at vulnerable points. Rather, they would be hidden in the Berkshires, the Catskills, the mountains of the Pacific Coast, and in carefully selected hideouts in our rural areas. From these points skilled operators could dispatch them with unerring aim and completely paralyze industry of the aggressor nation. I do not look for such an eventuality, but I do contend that the fear of retaliation would prevent any nation from attacking another one which had an adequate stockpile of atomic missiles, in just the same way that fear of retaliation banned the use of poison gas and disease germs during the late war.

B. Peacetime Application—The peacetime application in which I know you are all primarily interested is that of atomic power. How soon will it come? How extensive will its application be, and what will be its effect on our power bills?

In my opinion, the task of producing atomic energy and of converting it into electricity or steam is a task equal in magnitude to that of constructing one of the major atomic bomb material plants, and the time that will be required to do so will be of the order of from three to five years. Moreover, after the project is solved from an engineering standpoint, it will not necessarily be economically sound. Only continued operation of atomic energy

(Continued on page 1826)

Private Property Approved by Bible

"The right to property is firmly established in the Bible. The earth which is the Lord's has been turned over to man who has become the steward of its treasures. It isn't the ownership of property that is wrong but the misuse of it. Once more we are constrained to repeat that, what we have come by honestly is ours and no one has any right to deprive us of anything so acquired. We have gone to quite some lengths in making this evident and necessarily so because one of the mistaken ideas of many radical laborites is that they have the right to confiscate industries, utilities and other possessions which belong to someone else."

Dr. W. O. H. Garman

"Christ recognized capitalism and in His teaching concerning the Householder Who Planted a Vineyard, Matt. 21:33-34; and the Parable of the Talents, Matt. 25:14-30, approved of the profit motive. According to Him a proper return on capital invested was to be expected."

—DR. W. O. H. GARMAN, Secretary, American Council of Christian Churches; Vice-President, Independent Fundamental Churches of America.

NASD District 13 Nominating Committee

T. Jerrold Bryce, Chairman of District No. 13 of the National Association of Securities Dealers, Inc., announces the appointment of a Nominating Committee composed of Ranald H. Macdonald, Dominick & Dominick, Chairman; Herbert R. Anderson, Distributors Group, Incorporated; James J. Lee, Lee Higginson Corporation; Clarence E. Unterberg, C. E. Unterberg & Co.; and Walter W. Wilson, Morgan Stanley & Co.

Nominations are to be made to replace the following whose terms of office will expire on Jan. 15, 1947:

On the Board of Governors—Harry W. Beebe, Harriman, Ripley & Co., Incorporated, New York, and Robert S. Morris, Robert S. Morris & Company, Hartford.

On District Committee No. 13—James Currie, Jr., Troster, Currie & Summers, New York; A. James Eckert, Mohawk Valley Investing Company, Inc., Utica; Wilbur G. Hoye, Chas. W. Scranton & Co., New Haven; Richard L. Kennedy, Harris, Upham & Co., New York; and George J. Leness, Merrill Lynch, Pierce, Fenner & Beane, New York.

Needham & Co. Admits

(Special to THE FINANCIAL CHRONICLE)

PALO ALMO, CALIF.—James C. Needham and Kenneth R. Sayre have been admitted to partnership in Needham and Company, 561 Ramona Street. Both have been serving in the armed forces.

Atomic Energy

(Continued from page 1825)

plants for a period of many years, and the improvement in design and operating techniques that will come through such operation, can result in what we commonly term "cheap" atomic power energy. I would say that it would be at least ten years before atomic energy will have any effect upon electricity costs.

Now, what will be the effect of the economic development of atomic piles upon our industries? The first question is to what extent will it supplant coal and other fuels? The answer is, it will supplant them to a limited extent only and that there is room enough in the growth of our demand for power to absorb all of the uranium that will be produced and at the same time to keep our coal mines, our oil wells and our hydroelectric plants operating at normal capacity. The effect of atomic energy will be minor compared to the fluctuations in fuel demand that accompany changes in our business cycles.

Next, what industries can generate atomic energy to best advantage? The answer is that only the very largest consumers of power will be able to consider operating their own atomic energy plants. The atomic energy unit is inherently a large scale device. It is accompanied by continuous emission of radioactivity. Operators and property must be protected by walls of concrete, usually about six feet thick. Chemical separation facilities must be provided so that the active material may be reprocessed periodically to remove the fission products which after a time slow down or stop the operation. All of these are factors which will preclude the development of atomic energy on any small scale. I would anticipate that the first commercial plants to be built would be of the order of hundreds of thousands, perhaps even up to a million kilowatts in size, that they would be connected to an interconnected network of several of our largest public utility systems, and that industry and the public in general would be affected very little by their operation except as an ultimately lower cost of producing electricity will make it possible to lower electric power bills. At a later time, the electrochemical industries will undoubtedly have their own atomic power plants, but in the main, our industries will continue for a long time to receive their atomic power over the lines of their electric power utilities.

Another important peacetime use of atomic energy is in the production of radioactive materials for medical and biological purposes. This work is now under way on a semi-commercial basis. No outstanding difficulties or problems remain to be solved. In fact, the Manhattan District has announced the production and distribution of several radioactive elements and there is no reason why production should not continue on an increasing scale as the need for specific materials becomes indicated.

Another important outgrowth of the atomic bomb work is in the field that has been opened up for the separation of isotopes. Isotopes are forms of an element which differ principally in their weight. They do, however, differ very slightly in other respects and it is quite probable that their separation and study may lead to important developments in chemistry and metallurgy. Isotope study is a practically untouched field and much work lies ahead for scientists and engineers in it.

Time does not permit the enumeration of the many collateral advances in engineering which have resulted from atomic bomb work. Suffice to say that they have had and will have a profound effect on the future of engineering and industry.

World Trade Not Obstructed: Declares Dalton

(Continued from page 1780)

"I have not seen the statement. Assuming it was made, Senator Brewster is not so well informed as other people in this country. Maine, over which I have recently flown, is certainly a beautiful State, is it not?"

These remarks of the Chancellor were made following his address to the monthly meeting of the Chamber of Commerce of the State of New York in New York City Oct. 4. Reporting his country's rapid progress in postwar reconversion, he said that:

"I would like to report to you in the last year since V-J Day we have made very rapid progress with our reconversion and with our demobilization of the men and women in the forces and with the building up again of our export trade. We are already exporting a greater volume than we did in 1938, the last complete prewar year. The volume of our exports is already above that of the last prewar year and in terms of values the export trade that we are achieving now is more than double of what it was in the last prewar year, and the curve is rising, fluctuations from month to month, but the trend is rising. We are aiming at balancing our trading account, our overseas trading account, as soon as we can because we wish to pay our way without needing to enter into any further credit arrangements with any of our overseas friends. We aim at balancing our external trade account as soon as possible. I am not naming a date. That is always a dangerous thing to do, but if I would come back and see you again in the not too distant future, I might be able to report we balanced our overseas trading account. I would be very happy if I could do that, but if we are to balance our overseas trading account, it means two things.

"On the one hand we must continue to put heavy pressure behind our export drive. It will mean that an Englishman coming out to New York or Washington will find British goods in the shops there which he never found at home. That is what the export drive means, sir.

"It means we have to send you a lot of things we would very much like to keep to ourselves, but for the moment we prefer the dollars. Well, we must keep the export drive going until we have reached the point of equilibrium in our overseas trading account, and on the other hand we must keep a check on imports into the United Kingdom which are not strictly essential."

Domestic Controls and the Anglo-U. S. Loan Agreement

Emphasizing the need for drastic domestic austerity, the Chancellor continued: "I am afraid that our people in the United Kingdom will have to bear for quite a while longer a considerable measure of what we call wartime austerity for the reason which I have given you. We cannot yet afford to import as much as we should like of the comforts and luxuries of life. We shall have to maintain for a while longer rationing of foodstuffs and rationing of clothing.

"You referred, sir, to my observations when I was President of the Board of Trade, and the suit which I am now wearing was bought in celebration of V-J Day. I kept my word while the war was on. Of course some people said, 'It wouldn't make much difference to him, he had a lot of clothes anyhow,' but maybe they were wrong.

"However, for a while we will have to maintain still considerable austerity and I would like here to speak to you for a moment about the line of credit, the loan agreement concluded between your government and ours, and the line of credit which has been arranged between us, the line of credit in our favor arranged in that agreement. Things would have been much worse both for us and for you—and for you—and for the United States industry in general if we had not been able to arrange that line of credit because if we had not got from you that line of credit to enable us to bridge the gap between the ending of the war and the ending of Lend-Lease, both of which came with great abruptness, and the point where we will have built up our export trade again to the heights that we desire."

Mutual Advantages of the Credit

Mutual advantages of the credit arrangement were cited by Sir Hugh as follows:

"If we had not had this line of credit arranged, we should have had to cut down very heavily our purchases from the United States of food, of tobacco, of cotton, of industrial equipment, and even perhaps we might not have been able to take some of your films as we do now. We would have been very sorry, but we might not have been able to manage it on the money we had available then.

"Therefore, it was greatly to the advantage of yourselves and ourselves that this line of credit was arranged. I remember when I went to the Board of Trade one of the things I had to consider was whether we ought to ration tobacco. Supplies were short. We went into it and I produced a ration scheme and I showed it to the colleagues and I said, 'There are only two things we can do; either you must give me a better priority of imports of tobacco from the United States and elsewhere within the shipping program, or we shall have to impose rationing,' and one of my colleagues said—not Mr. Churchill—'Under this ration scheme that you have drawn up how many cigars would I have in a week?' I said, 'My dear Andrew'—I don't know whether that is a guide to who it was—'you will have a dozen,' and he said, 'We must have high priority for tobacco.' The priorities have continued and are continuing with you in consequence of the line of credit.

Will Stimulate Multilateral Trade

"Looking to the future," the Fund Chairman went on, "I think the stimulus which this credit arrangement is going to give to your exports to us and also to our recovery, our speedy recovery of the position of equilibrium in our trade, it is also going to serve us to take a further long step forward toward a greater volume of multilateral trade throughout the world. I would guess you in New York are fully cognizant of the importance of multilateral trade. I venture to say one address I gave a little while ago said that bilateral trade is better than no trade at all and, of course, if the obstacles to trade are erected at such a height that trade can't flow past and over them, if some parts of the world do erect—whatever part it may be—I am developing a perfectly general economic and financial argument—if any part of the world puts up such high barriers and obstructions to the flow of trade, the trade can't get by in quantity, then you may be given back to bilateral, but that, I believe, would be a very poor second best for the world and for the United States and for the United Kingdom. That would be my belief, and your government, like ours, is pledged to do our best to get trade flowing on an ever expanding scale and along multilateral rather than bilateral channels.

Optimistic on Bretton Woods

Great confidence in imminent progress by the Bretton Woods institutions was thus expressed by their Chairman:

"In the past ten days I have been taking part at Washington in the annual meetings of the Governors of the International Monetary Fund and of the International Bank for Reconstruction and Development and I am hopeful that these two new international institutions will have great value in the years ahead for world trade, in the one case by bringing more stability into our international exchanges and exchange rates, and in the other case by building up the new productive resources which are awaiting development in many parts of the world.

"Next year, the annual meeting is to take place in London and the Governors have done me the honor, as your President has said, of appointing me to be the chairman from now on until that annual meeting. I regard it with a great honor to have been so chosen and I shall do my best in consultation with my friends in the United States and in the other principal countries concerned to see that the work of these two new institutions progresses and advances in the 12 months lying before us."

TVA's Enchantments

About to visit our TVA site, the Chancellor waxed enthusiastic as follows:

"Tomorrow I am to fly down to Tennessee—no doubt there are some present here who know Tennessee very well; maybe some come from that State; I gather that many eminent men have come out of that State in the past. I am going to be shown the TVA—Tennessee Valley Authority's work and I am deeply interested in what I am to see there. I have been taught by what I have read and heard, to believe that it is a very daring social and economic experiment which has now been running for years enough for its values to be assessed. It has been watched with keen interest in my country, particularly by members of the political party to which I belong, and it may well be, I think, that this first model of American manufacture have a new form of public enterprise and the organization of the resources of the whole area, full of potential resources, but in which for some time, owing to certain gaps in the arrangements made, full development did not take place. It may well be that this new model should be copied with appropriate variations, of course—you wouldn't want to copy it blindly and without consideration of other conditions—in other economically undeveloped regions of the world. There are river valleys in Europe which would do well with an authority like the TVA, and in Asia, perhaps, and even in that strange, troubled region of the Near and Middle East. I think it may well be that a number of these stresses and strains and tensions between different peoples which at first sight are attributable to religious differences or to racial or linguistic differences, may in fact be attributable to inequality, narrow development and narrow outlook upon their own future. It may well be that a lifting of the standards of life of those people may be the best solvent of the animosities which for the moment seem so imminent. Anyhow, this is the thought which I will take with me to Tennessee and I think it may well be that America may have taught the Old World a great lesson in this respect as well as in others."

American Bankers Association Holds 72d Annual Convention

(Continued from first page)
been a member of the faculty of The Graduate School of Banking for a discussion of country banking, and an evening seminar lecturer at the resident sessions of the school, which is conducted by the Association at Rutgers University, New Brunswick, N. J.

Mr. Bailey developed the "Four Pillars of Income," an agricultural program of his bank, which has served to encourage diversified farming in the Clarksville trade area.

Joseph M. Dodge Elected Vice-President

Joseph M. Dodge, President of The Detroit Bank, Detroit, Mich., was elected Vice-President of the Association at the close of the Association's Annual Convention. Mr. Dodge is a native of Detroit and received his education at the public schools of that city. He began his banking career as a messenger in the Central Savings Bank in Detroit in 1909 and rose through the various departments to the post of general bookkeeper. Then he became an auditor with a firm of general accountants, returning to the banking business as an assistant examiner, later becoming the senior examiner, in the Michigan State Banking Department. Subsequently he joined the Michigan Securities Commission as a special examiner and later became secretary of the Commission.

In August of 1932, Mr. Dodge joined the First National Bank in Detroit and served as Vice-President and Assistant to the Chairman of the Board of that institution in 1932-1933. He was Vice-President of the National Bank of Detroit in 1933 and has been President of The Detroit Bank since December, 1933.

From November, 1942, through August, 1943, he was Chairman, Price Adjustment Board, Central Procurement District, Army Air Forces, covering 13 states, with headquarters in Detroit. From August, 1943, through August, 1944, Mr. Dodge was in Washington, D. C., where he served as Chairman, War Department Price Adjustment Board; Chairman, War Contracts Price Adjustment Board, of the War, Navy, and Treasury Departments, Maritime Commission, and the Reconstruction Finance Corp.; and Director, Renegotiation Division of the Army Service Forces.

From August, 1945, to July, 1946, Mr. Dodge served as Financial Adviser to the United States Military Governor and Director of the Finance Division of the Office of Military Government, Berlin, Germany.

On March 11, 1946, Mr. Dodge was awarded the Distinguished Service Certificate of the United State Treasury for services rendered on behalf of the War Finance Program. On Sept. 18, 1946, Secretary of War Robert P. Patterson presented the Medal for Merit to Mr. Dodge. The Medal for Merit is the highest civilian war award, ranking with the military Distinguished Service Medal, and is authorized only by the President of the United States for "exceptionally meritorious conduct in the performance of outstanding services in the war."

Mr. Dodge is the past President of the Michigan Bankers Association and has served on many committees of the MBA and the ABA. He has been in much demand as a speaker on bank operating topics at bankers' and business meetings. In 1939-1940 he was a member of the Executive Council of the American Bankers Association and is now a member of its Postwar Small Business Credit Commission.

S. Albert Phillips, the present treasurer of the American Bankers Association, was reelected to that post for another year. Mr. Phillips is vice president of the First National Bank, Louisville, Ky. He was born in Laurel County, Ky. He was educated in the public schools and at Sue Bennett Memorial College, London, Ky., and Cumberland College, Williamsburg, and completed his business and commercial education at the University of Kentucky, Lexington.

In the activities of the American Bankers Association, Mr. Phillips has served on the executive Council; the Membership Committee; ex officio Bank Management Commission; the Executive Committee of the National Bank Division, and as chairman of the committee 1940-41. From 1941-42 he was vice president of the divsion, advancing to the presidency in 1942. He has served as a member of the Nominating Committee from Kentucky, and has been active in the Kentucky Bankers Association.

Carl K. Withers

Fred F. Spellissy

James C. Wilson

Evans Woollen, Jr.

J. Carlisle Rogers

Among the various Division presidents elected are the following: Carl K. Withers, National Bank Division; Fred F. Spellissy, Savings Division; James C. Wilson, State Bank Division; Evans Woollen, Jr., Trust Division, and J. Carlisle Rogers, State Association Section.

Convention Proceedings

The general sessions of the convention were held on Tuesday, Sept. 24, and Wednesday, Sept. 25. The four divisions of the Association and the State Association Section held their annual meetings on Monday, Sept. 23. Adjournment was at noon on Sept. 25.

John W. Snyder, Secretary of the Treasury; Louis Bromfield, noted novelist, farmer, and soil conservationist, and Paul Hoffman, President of the Studebaker Corporation, and head of the Committee on Economic Development, were among the national leaders scheduled to address the sessions.

The convention was preceded by a full day of meetings of the Association's commissions, councils, and committees on Sunday, Sept. 22. A reception and tea was tendered to the delegates by the Chicago banks that afternoon. A Sunday Evening Hour followed at 8:30 p. m., featuring a song recital by Lawrence Tibbett and an address by Bishop Bruce R. Baxter of the Methodist Church in Portland, Ore., on the subject of "The Year of Decision."

On Sunday afternoon at two o'clock, the subcommittee on State Taxation of Banks of the Committee on State Legislation held a Bank Tax Symposium in the West Ballroom at the Stevens Hotel. State bankers associations had their tax authorities prepare statements on bank taxation for their states for study by the subcommittee. From this group of reports, short oral summaries of typical bank taxation situations needing attention were presented. The basic purpose of this symposium was to provide state banking representatives with information about problems which arise from the gross disparity as to tax burdens on banks. In some states, it was pointed out, the taxes upon state banks which are not imposed upon national banks tends to cause conversion from state chartered to national banks. In some states also, heavy property taxes on bank shares discourage the building up of capital funds. Edward Elliott, chairman of the subcommittee, who is also vice-president, Security-First National Bank, Los Angeles, California, led the discussion.

Speakers at the general sessions included retiring President Rathje, who is President of the Chicago City Bank and Trust Company: Snyder, Secretary of the Treasury; the Honorable Leonard [illegible]kington, K.C., LL.D., former Special Wartime Adviser to th[illegible] Governor General of Canada, and former Counsel on Empire Affairs to the British Minister of Information in London; W. Randolph Burgess, vice chairman of the board of the National City Bank of New York, and former ABA president; and Robert M. Hanes, chairman of the ABA Small Business Credit Commission, former ABA president, and President of the Wachovia Bank and Trust Company, Winston-Salem, N. C.

Speakers heard at division meetings included William L. Clark, Vice-President of the J. I. Case Company, Racine, Wisc.; H. R. Farrall, advertising manager of the Warren "Tribune Chronicle," Warren, Ohio; Carl M. Flora, Vice-President of the First Wisconsin National Bank, Milwaukee, Wis., and chairman of the ABA Consumer Credit Committee; Paul Hoffman, president of the Studebaker Corp., and head of the Committee on Economic Development; Fred I. Kent, chairman of the Commerce and Marine Commission of the ABA, and director of the Bankers Trust Company, New York; and R. A. Peterson, vice-president of the Bank of America N. T. and S. A., San Francisco, Calif.

Resolutions Adopted

The convention, before adjournment adopted resolutions urging reduced Government spending "to the smallest figure commensurate with the maintenance of those essential services that the Government must provide"; a continuous unremitting effort by bankers to sell United States Savings Bonds; an early enactment of "a basic and continuing plan of taxation which will encourage individual initiative and private enterprise"; new, fair and just labor legislation which will define the rights of labor, of management and of the people; a curb on bureaucratic controls, particularly those relating to the use of consumer credit, government loaning and guaranteeing agencies, as well as price controls; a curb on trend toward nationalization of productive economy; and adoption of "a firm and positive position" by the United States in its relation with other countries, which "reflects a spirit of justice and a desire to carry on foreign trade under conditions that will be of mutual benefit to all concerned."

Vincent LaFrence to Be Partner in Carmichael Co.

Vincent H. LaFrence, member of the New York Stock Exchange on Oct. 17 will be admitted to partnership in Carmichael & Carson, 1 Wall Street, New York City. Mr. La Frence was formerly a partner in J. Robinson Duff & Co.

Isenhour & Co. Formed

SACRAMENTO, CALIF.—Isenhour & Co. has been formed with offices at 2014½ Del Paso Boulevard, North Sacramento, to engage in the securities business. Partners are J. G. Isenhour and H. L. Isenhour. Both were formerly with Davies & Mejia.

Postwar Regulation of Securities Market

(Continued from page 1782)

get this picture of the pressure of rising prices in this 1921-1931 period.

It requires, of course, but a moment's reflection to realize that if costs, payroll, raw materials rise 50%, that it is necessary to have 50% more funds tied up in business operations. Likewise, it is easy to realize that new plant and equipment will also require increasing capital investment.

Now in this period, 1913 to 1920, the level of wholesale prices rose roughly 10%. In contrast, the index of physical production remained almost unchanged. Thus, we had a period in which we had, for all practical purposes, the fiscal output of industry remaining constant and imposed upon it a 10% price increase. The effect of that situation upon all phases of the security market is quite evident. Increase in bank loans, increase in issues, especially coming out after the war, volume of security, flotations of bank loans paralleling the 10% price increase while the physical output of industry remained relatively constant.

Money Market in '30's

Now, we go to the '30's and there we found the physical volume of industry declining but at the same time prices declining and we found a growing feeling that a certain eclipse was throwing a shadow across the operations of the money markets. And, there, with philosophies that this was not temporary, that our industry, that our society, had reached a stage of maturity in which business could finance itself largely out of its own earnings, 1930 was taken as a model if it were a norm.

Well, the outbreak of the war changed the situation of the 1930's immediately. But the change was not clearly indicated to many people because of the many ways, direct and indirect, by which the government was meeting the physical needs of business during the war, by supplying government-owned buildings and government-owned plants. Also, businessmen had certain economies in physical matters resulting from the fact they were dealing with one and not with thousands of customers.

Our studies led us to believe that as the government retired from financing and purchasing fields, and as consumer demands for peace-time products asserted themselves, there would be a need for funds in a generous quantity from all security fields including banks, security exchanges and all.

Security Regulation

We then turned to an examination of security regulation. I will read from the book the statement which recites an examination of the regulation. The first sentence refers to what has gone before. It says, "In any case there can be little disagreement that one of the most important requirements of the postwar period is a healthy and expeditiously functioning capital market. Only thus can we hope to maintain a high level of employment and realize the rapid increase in production and standards of living of which we are technically capable. The immediate task, therefore, is to remove any obstacles which prevent or retard the employ of funds into new capital investment, at the same time of course, with due regard to the interest of the investing public."

Now, we did assume that in any system of regulation the interests of the investor should be the primary consideration. But, and this is the real problem, how far can you go in protecting the investor by law without too seriously impairing the necessary functioning of the capital market. And I would underline "necessary functioning of a capitalist market."

Indeed, if regulation goes very far, I am afraid, in determining what is sound and what is unsound, it really must determine the exposive possibilities of all expansive periods at their birth to anticipate the future. Neither laws nor men are that wise. And perhaps even worse, if you attempt to go very far with that it will envelop you in controls and controls and controls which will prove not only inconsistent with private enterprise but which can become so detailed and cumbersome so as to impoverish economic enterprise whether capitalist or otherwise.

Recommendations

Well, perhaps, at this point I should turn roughly to the recommendations. Maybe you have read them, maybe you haven't. I will run through them very hurriedly. O appreciate your time is limited. The issue, "Should Regulation Go Beyond Preventing Fraud and Requiring Adequate Information?" Our point of view was it can be. It is expressed very well by quoting President Roosevelt who said, "In recommending the Act to Congress, the Federal Government cannot and should not take any action which might be construed as approving or guaranteeing the newly issued securities as sound in the sense their value will be maintained or that the properties which they represent will earn profit."

Now you may say many members of the SEC will agree utterly with that statement. They claim they have in no sense deviated from the spirit of that statement. We think we found some evidence to lead one to reasonably disagree with them, particularly, in the early days of the functioning of the SEC.

Competitive Bidding

The second issue, "Should Competitive Bidding Be Required for All Classes of Issues?" We concluded that it should not be compulsory for all types of issues; that no hard and fast rule should be laid down in view of the relative strength, and also, the relative weaknesses of both the competitive and the closed type of bidding. Moreover, there is a point that these things change as they act and behave. You can have a period of competitive bidding when interest rates are easing slightly and the underwriter gets out all right, the customer gets out all right, security rises in price and nobody particularly complains or worries about competitive bidding.

You can have a period when interest rates tend to firm a little bit and the underwriter doesn't have the advantage of an easy interest rate situation. Then you not only find the security hard to dispose of, the purchaser may find a decline somewhat in price, and you may help to tie up the general market. Our feeling is that both types can be defended for particular situations.

Price Stabilization During Flotation

"Should Stabilization Be Permitted During the Period of Flotation?" In view of the safeguards thrown around the trading of exchanges, especially during the admirable leadership of Emil Schram, we saw no particular reason why that institution would be badly abused.

"Should the Several Investment Functions Be Segregated?" That is, separate your house of origination from underwriting, from purchasing and distribution. We think that those suggestions that have been made by certain speakers from time to time are practical.

Is private placement desirable? Our conclusion is, that it can serve a function in raising capital but that we feel the direct placement should be permitted to the same regulations as public offering.

I won't take time to go into that point of view. I know some of you may disagree with it, but I will leave it to you to read the book.

Decentralization of Investment Banking

"Should Attempts Be Made, as suggested by William O. Douglas, Chairman of the Commission, to Decentralize the Investment Banking System?" Our feeling was in view of the set up of the character of American business enterprise and the abundance of funds which have been available in latter years, and the adaptation which investment banking has been making to accommodate the needs of medium and small size business, we see no reason at present for attempting to force greater decentralization.

Simplication of Regulation

We then took up the question of simplifying security regulation, which is rather technical. I might call your attention to the fact that in the original draft of the security regulation it exempted from its provision not only railroads but public security utility.

In view of the fact of the development of the holding company situation, the increased control that states have taken over operating companies, and in fact the laws of most leading states exempt from regulation of security public utilities, corporations regulated by state and Federal commissions listed on recognized stock exchanges and legal investment, we though a similar suggestion might be adopted by the Federal Government.

We took up the matter of the duplication in statement. You are familiar with that. "The Question of the Wating Period and What Should Be Permitted During the Waiting Period." We felt that the provisions of the Security Act regarding solicitation through the waiting period should be modified so as to permit acquaintance and expression and attitudes of interest, although, the actual sale of securities may be deferred.

"Labor and Salaries." "Cost of Production."

Wages and salaries constitute some 70% of the total national income. If you cannot liquidate agricultural prices seriously; or if you cannot liquidate labor costs seriously, you are going to have a high cost structure and a high price structure. Now, it is true, in time, technological improvement can offset some of those factors, lowering costs, but it is our feeling, for the period which lies ahead, there is not going to be a serious liquidation of the price structure.

I have already gone a half-hour. If you will excuse me, I will just jump and make one more point in closing.

Importance of Cost Structure

This cost structure, this situation for which we need a healthy, functioning market, is even more important when we consider the present situation with respect to savings. There is a tendency, of course, for aggregate savings to increase at national income expense.

In recent years, however, the increase in income has been primarily in the lower levels where the proportion saved is relatively low. At the same time, the high income groups have faced high taxes, which have greatly restricted the potential income among that group. Now, the great bulk of the population in which savings seem to be shifting, channel their savings customarily through insurance, savings banks, and social security funds. These funds, in turn, are invested by these institutions and are not available for equity purchase.

There is need for taking notice of this postwar situation. Costs have been rising. Our estimate was that costs, and that means selling prices, will emerge in the postwar period roughly 40 to 60% above what they were in 1940. Now, that is a high level of cost, and it brings in a big problem of financing. It is our opinion, also, that this cost structure and prices are likely to remain about in these levels, 40 to 60% above 1940. If you stop for a moment to ask yourselves a question, "Well, can't these costs be liquidated?" your next question is, "Can you liquidate costs?" "Will you liquidate labor c o s t s?" An organized labor movement now totals 15 million people in contrast to five million at the end of the last war, and a political situation which makes politicians receptive to votes, a strange thing, gives this group power to resist any serious liquidation.

Turn to another field of cost, agricultural prices. It has been in the main above parity, well above parity. We have already promised to support them at 90% of parity two years after the war, 92½% in the case of cotton, and there is enough political pressure to suggest that, perhaps, instead of reducing those support levels, we may increase it or we may increase the period of time in which the Government will rush to the support of that price structure.

Liability of Issuers and Underwriters

Finally, we turn to the question of "Liability," pointing out that the burden of proof rests upon the defendant; that the provisions also apply to misstatements in the reports of a company required under the Act. That the director may be liable even if he did not sign the registration statement or even know of its existence. We thought it would be reasonable that a party should have the right to set up as a defense against its liability the proof he did not know or did not have a reasonable basis for believing the facts stated to be untrue.

Now, I don't suppose that these recommendations meet with your uniform approval. I only know that they are honest and that no influence was brought to bear upon the writers from any source whatsoever.

I should like to warn that even if you should at any given moment of time evolve a proper system of control over the securities markets, times, conditions change, and you will continue to have problems as new situations arise. So it is a problem which cannot be settled once and for all, but our outstanding purpose was to call attention to the fact that we need the securities markets. We need them to be operating in a healthy condition.

We, thus, arrive at the possibility that aggregate money savings may be expanded relatively to consumption, while at the same time the amount of savings funds available for investments in new securities may be quite limited. In other words, we may be in a situation where we have a relatively large aggregate of savings and at the same time a relatively small supply of equity money. In that situation, you see the problem of the investment banker and the need to look toward tapping a greater portion of the income group, whose savings, otherwise, will not be available to the investment market. This situation may, of course, affect interest rates a bit and the price of money. The more important concern, however, is that we need to keep the security markets, the securities field, the money market free from any semblance of misconduct. While, at the same time, we reexamine the security legislation of the 1930's in a detached manner, asking ourselves a question whether there is duplication and overlapping of controls and unnecessary multiplication of details, so that cumbersome situations arise which hamper a broad-functinging of a healthy investment market.

Chas. Slaughter & Co. Admits Serguis Klotz

Charles Slaughter & Co., 66 Beaver Street, New York City, members of the New York Stock Exchange, announce that Serguis Klotz has joined the firm as a general partner. For the last year Mr. Klotz has been associated with Glore, Forgan & Co. and prior to that served as a lieutenant on the Headquarters Staff of Admiral E. J. King.

Mr. Klotz has spent much of his investment career in the Far East. He became a partner in Swan, Culbertson & Fritz in 1934 and from 1933 to 1940 he managed that firm's office in Manila. He played a leading part in the development of the Manila Stock Exchange and served as its President from 1938 to 1940, when he became manager of his firm's Shanghai office. Foreseeing war, Mr. Klotz left the Orient in 1941. After a year with the U. S. Treasury Department, he joined the Navy.

Having graduated in 1929 from Stanford University, where he majored in economics, Mr. Klotz entered the investment business by joining Conrad, Bruce & Co. in his hometown of San Francisco.

His admission to partnership in Charles Slaughter & Co. was previously reported in the "Chronicle" of September 26th.

Frankenbush to Admit

Frankenbush & Co., 25 Broad Street, New York City, members of the New York Stock Exchange, will admit Henry Leon to limited partnership in the firm on Oct. 17.

Some Aspects of Investment Banking

(Continued from page 1783)

when accumulated savings were available for investment in business ventures—that was in the last quarter of the 19th century.

With the recent example of a drop of 40 points in a new issue of Preferred Stock after the removal of price limitations, one might believe that the ability to price an issue (an ability which a dealer with his experience would be expected to have) is the most important aspect of the investment banking business.

However, there are other important phases from the long term view, and with the thought that some dealers will continue in the field of investment banking, it might be helpful to note what is involved.

Functions of Investment Banking

As you know, investment banking includes three separate and successive functions. The first is Origination. Then comes Underwriting, and thirdly Distribution.

The orginating function includes the following operations:

First—**Discovery.** The locating or finding of a corporation that can use capital funds. Little time need be spent on this as you all are hearing about deals from the many "bird dogs" who are in the street.

But the second operation—**Investigation**—deserves more attention. By Investigation I mean that examination into such facts as the corporation's financial position, its management, the condition of its physical properties, products manufactured and the demand therefor, the industry itself with its competitive conditions, which enables us to test the investment credit of the corporation. Sometimes this phase has been minimized in a haste to bring the issue out.

It is too early to appraise the result of the past easy money market but I am convinced of one fact—that had it not been for the registration requirements of the Securities Act of 1933 many Sept. 30 balance sheets submitted to the SEC would have shown some actual and contingent liabilities arising from underwriting. As SEC Chairman James J. Caffrey pointed out in his initial address at the State Securities Administrators' dinner—

"The care of the (SEC) Staff in processing registration statements in advance of effectiveness has a tendency to protect those filing statements and bearing liability as well as to protect investors."

But the fact that there has been filed, as required by law, a registration statement which has become effective by action of the Commission does not afford a defense to the investment banker when he is sued because of a false or misleading statement. Now, whether you originate as the principal underwriter or merely take a position in the underwriting group, you must be able to prove affirmatively that you had

"after reasonable investigation, reasonable ground to believe and did believe"

that the statements made in the registration statement

"were true and that there was no omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading."

Investigation

Accordingly, Investigation—the second operation in the origination function of investment banking should not be passed over lightly. You might find that the president has been convicted of crime that the corporation mistakenly believes it owns a certain franchise, that there is a technological change in the industry which will make the apparently important processes or products of the corporation obsolete, that there has ben a sharp reversal in the trend of profits, that substantial wage increases have been recently granted, or that contracts for primary raw materials will not be renewed.

Besides learning the facts about the corporation and its position in the industry, you have also during this investigation period an opportunity to make suggestions which will strengthen the corporation and protect the investor. For example — Can the Board of Directors be improved? — Is it stacked with officers passing on their own acts?—Do the insiders have supply or service contracts that might better be terminated or absorbed? Such an inquiry is particularly true when the closed corporation seeks public money for the first time. You will invariably find that for tax or price control reasons there are separate entities performing acts which the corporation itself might do. In one case, the corporation leased its factory from a company controlled by the insiders and delivered all its products by trucks hired by another company owned by the insiders. As part of the tightening up process prior to financing, the corporation that proposed new financing obtained a new lease with option to purchase the factory and obtained an option to purchase the trucks.

Negotiation

After such an examination you are better prepared for the last operation of the origination function of investment banking — that is, **Negotiation** — which is the process which determines the amount, the price, and the terms of the proposed issue.

You now know the amount of capital the corporation may profitably use in the business and the purposes for which it will be expended. As a result of your examination into the business and the industry you are better able to determine a price — not wholly what price the public will pay but what price will be justified by reasonably expected earnings and dividend payments. Lastly, you are better equipped to decide the terms of the proposed issue.

In line with your responsibility, you size up the situation from the point of view of the investor to whom the issue will be offered. You have determined what protective features should be embodied in the certificate of incorporation or the by-laws. If it is a preferred stock, you may wish to provide for a sinking fund of certain percent of net profits to redeem the preferred, to condition salary increases upon the approval by a certain percentage of the preferred, to prohibit the corporation from purchasing any of its preferred (in the event of a default in payment of dividends), and to provide for voting power.

In so many ways it is possible for you, as the sponsor of an issue, to strengthen the picture prior to the public offering. The action you take may not only make the issue more salable but save you grief in the future.

Underwriting

The second function of investment banking is the **Underwriting.** This involves an agreement to obtain the required capital and the agreement may take the form of an outright purchase, such as in competitive bidding situations, or a best efforts commitment. To my mind, the fairest agreement to both parties is one where the firm agrees it will be bound to purchase the issue on, say, the tenth day after the registration statement becomes effective. Such an agreement enables the firm to test its analysis of the market by offering (not public advertising) the securities. It is only after the effective date that you may offer the securities although you are permitted and apparently expected during the pendancy of the statement (while it is in registration) to circulate informative data, including a prospectus properly marked to state that no orders will be accepted. On this point you will find helpful Mr. Caffrey's recent address. As a good rule of thumb, send out a "red herring" prospectus only when it reflects changes made in that amendment to the registration statement which is responsive to the SEC's letter of deficiencies.

Just one further thought on the underwriting function of investment banking. A well-drawn agreement will contain a provision to the effect that in the event of certain calamities occurring prior to the payment date (which may be many days after the day upon which you are committed to purchase the issue) the firm may withdraw from the underwriting.

Thus, there will be two "outs"—the first to be exercised prior to the commitment date because of market conditions, and the second to be exercised prior to the payment date because of a calamity—such as a hurricane destroying the corporation's plant.

The last function of investment banking is **Distribution** — the entire process by which the originated and underwritten issue is offered and disposed of to the public. The first step is the formation of a selling group (in which the underwriters may be included) composed of retail dealers who do not participate in the underwriting agreement but who assume the risk in merchandising the amount of securities alloted to them at a stipulated price — the public offering price less a certain fixed discount.

As you have noted, the trend today is to have larger underwriting groups. Many dealers who formerly participated only on selling group terms have undertaken the underwriting task. When invited to join as an underwriter, remember that your position as an underwriter will vary from that of a dealer in that—

(1) As an underwriter you must be able to prove that you made a reasonable investigation and that after such investigation you had reasonable ground to believe the registration statement was correct and complete;

(2) As an underwriter you may be sued if the registration statement was not correct and complete and sued by one who purchased the issue from another person. However, it would appear that your total liability is, generally speaking, limited to the total offering price of the securities underwritten by you and distributed to the public. Thus, if you are an underwriter with respect to 5,000 shares out of 200,000 shares offered to the public at 20 per share, your total liability is $100,000.

The "After-Market"

The second step in Distribution may be a stabilizing operation and the last step is the "after-market." You will again hear more about stabilization, and it is a subject upon which a series of talks could be given. As to the "after-market," the chances are that it will be to your credit if the issue has been bought right and properly placed with investors and not free-riders put in for a quick turn.

To conclude, I should like to restate that while proper pricing an issue is very important, there are other important aspects of investment banking, such as the Investigation operation in Origination. Make sure of the facts and strengthen the general corporate organization so that five years after the financing you will be proud to hear the name of the corporation which obtained capital funds through your firm.

More and Balanced Production: Harriman

(Continued from page 1785)

of the people of this country, I know we can meet and solve these problems.

We have been finding serious shortages of basic materials and of products and commodities. To overcome these conditions, production—more and balanced production—in all these lines is of fundamental importance. During the war the people of this country showed their ability to attain enormous productivity and to develop through science new wonderful products and methods now available for peace. Our basic problem now is to direct our abilities to production to meet the peacetime needs of all of our people and, through trade and sound financial assistance, to enable the people of other countries to rebuild the disastrous destruction of the war, increase their standard of living, and thereby provide expanded markets for our products.

Stable and rising production is the only way to maintain a high level of employment as well as to have available more goods for the security and better life of everyone. More and steady production is the most solid foundation for the prosperity of this country as well as the peace of the world. People the world over are looking to us for leadership in solving the economic as well as the political problems that face us all.

There is, I believe, little difference of opinion in the United States as to these fundamental objectives, but there are naturally wide disagreements as to the methods by which they can or should be attained. The Department of Commerce has at its basic responsibility to assist the sound development of the industry, production and trade of the United States. It has the obligation to play its part in carrying out the policies of the Congress, to co-operate with other Departments and agencies of the government to meet these fundamental objectives. The Department of Commerce must, too, render all the assistance within its power to aid business in the United States, particularly small business, in taking advantage of the opportunities which exist to meet the needs of the people.

Patience and good will on all sides, as well as clarity about our central objectives, is of prime importance. We must all earnestly attempt to understand the point of view and problems of other individuals and groups and particularly we must not take advantage of the present dislocations to further unfairly our own special interests. The welfare of the country as a whole is of overriding importance to each of us. I do not, I think, minimize the difficulties, but I have faith that we can and will deal with them effectively.

Paine, Webber Opens Los Angeles Branch

LOS ANGELES, CALIF. — Paine, Webber, Jackson & Curtis, nationally established investment brokers and underwriters, announces the opening of an office at 626 South Spring Street.

Frank L. Patty, with a background of 15 years in the investment business in California and a veteran of four years' service in the Navy, is resident manager. Assisting him is Stevens Manning who has been connected with the investment business in California for 18 years.

Paine, Webber, Jackson & Curtis is one of the oldest investment banking firms in the country. From a modest beginning in Boston in 1879, it has expanded into 23 offices located in 12 states. It has memberships in the New York Stock Exchange and other principal stock and commodity exchanges. In addition to regular stock exchange business, the firm has one of the largest organizations in the country for the distribution of new security issues and issues not traded on any stock exchange.

"Our Reporter on Governments"

By JOHN T. CHIPPENDALE, JR.

The government securities markets have been displaying a much improved tone, as prices moved out of recent trading ranges, due to the increased demand for issues, from practically all institutional investors. . . . Probably the most important factor in starting the uptrend in prices was the demand for the longest bank eligible 2½s and the newly eligible 2¼s, from out-of-town banks that needed income to offset rapidly increasing operating costs. . . . The psychology of fear and uncertainty that had gripped the market seems to have been broken, at least temporarily, because the need for income among some of the smaller commercial banks became important enough to have resulted in their acquisition of obligations, principally in the longer intermediates and longer-term maturities. . . . Commercial banks with savings deposits were reported to have been buyers of the longest maturities of the eligibles. . . . A good demand was also in evidence for the partially exempt obligations, which have been lagging behind the taxable issues, despite a more favorable tax-free yield, than is available in comparable maturities of the taxables. . . .

It is indicated that a few of the larger banks came into the market recently and cleaned up the remaining partially exempts that had been seeking buyers. . . . This resulted in prices moving ahead despite selling by the insurance companies and to a lesser extent the savings banks. . . .

NEW BUYING

The restricted obligations went up in price as non-bank investors showed a real desire to build up holdings at yields that not so long ago would have been considered very attractive. . . . These institutions, principally the life insurance companies, according to reports, were not only shifting holdings, but also putting new funds into the market. . . Partially exempt obligations as well as the longer intermediate maturities of the taxable eligibles and the longest-term bank issues were being sold and the proceeds put to work largely in the longest restricted 2½s and 2¼s. . . .

It seems as though non-bank investors have also decided to move out of some of the short-term issues they had acquired. . . . These holdings have been estimated to be in the neighborhood of $1 billions and were to have been used largely to purchase a new issue of bonds, which had been expected near the end of the year. . . .

The statement of the Treasury Secretary that no new bond issue is to be floated at this time no doubt was responsible for the use of funds and securities that had previously been earmarked for new Treasury financing. . . .

The 2¼% due 1956/59 are meeting a good reception from the commercial banks, which institutions according to reports have been taking on sizable amounts of this bond. . . . Not only new money but also the proceeds from sales of shorter maturities are being put into the recently eligible 2¼s. . . . The 1½% due 1950, according to reports, are being sold and the proceeds reinvested in the long-term 2s. . . .

INCREASE IN TRADING EXPECTED

Although it is not expected that there will be any wild rush to acquire securities, as in the past, a much more active trading market is looked for, provided there are no drastic changes in economic conditions. . . . Assuming that there will be no boom and bust, it is believed in some quarters that the government securities markets for about the next year are likely to be under the influences of shiftings in holdings by the commercial banks. . . .

These institutions, particularly the smaller banks, are facing increased operating expenses, and with loans not increasing, as they are in the larger city banks, must find ways to build up income to offset these higher costs. . . .

One means of doing this is by extending maturities in order to get a larger rate of return. . . . Likewise it is realized that profits from bond trading will be very small from now on, if not eliminated almost entirely. . . .

ANOTHER IMPORTANT FACTOR

Also the movement of deposits is going to have an important bearing on the investment policies of the commercial banks. . . . Many of these institutions, in war centers that had expected a sizable decrease in deposits, and made preparations to meet such conditions by the purchase of short-term securities, have come to realize now that these deposits are not likely to move to other centers, but will be a permanent part of the deposits of their institutions. . . . Under such conditions, with deposits likely to remain in the immediate locality, there is not the same need for short-term securities. . . . This will no doubt lead to a lengthening of maturities in order to build up income, which has not been helped by the large holdings of low income short-term securities. . . .

Reports are prevalent in the financial district that banks in certain of the Pacific Coast war centers have recently been buyers of the longest eligible bonds, with funds that previously had been invested in short-term issues, which were being held as a protection against deposit withdrawals. . . .

LONG-TERMS SEEN FAVORED

With indications that there will be no changes in the rate structure, unless there should be a drastic inflationary trend, it is believed that there will be a tendency particularly among the smaller commercial banks to switch from the shorter maturities of the taxable 2s in the longer maturities of these same 2s and from the longer intermediate-term 2s into the 2¼s and 2½s. . . .

There are very large holdings by the deposit banks in the shorter maturities of the 2s and with deposits likely to be quite permanent, which should allow a lengthening of maturities to improve income, it is expected that these institutions will move out of the shorter maturities of 2s into the longer-term bonds, before there is a loss of premium by the nearer-term maturities. . . .

This shifting of maturities will mean a good trading market, but fluctuations are not expected to be too wide. . . . The large banks in New York City and Chicago will most likely be the buyers of the shorter-term bonds that will be sold by the smaller banks, because the nature of the business carried on by the large city banks makes these short-term issues attractive to them. . . .

TREASURY'S MOVE?

What the Treasury will do the rest of the year in connection with maturing obligations is still purely conjecture, because it is indicated that the monetary authorities still have an open mind on this situation, although some decision on Nov. 1 maturities will be forthcoming in the very near future. . . . One of the factors that no doubt will have an effect on the future financing policy of the Treasury will be the flotation of securities by the International Bank. . . . It is not likely that the government will be in the market when the securities of the World Bank are being offered. . . .

Also it is believed that the government will not be engaged in financing operations if holders of the longer-term ineligible issues should be seeking to dispose of these obligations in order to obtain funds for business needs. . . . Business conditions and trends of prices also will have an important bearing on future Treasury financing policy. . . . Economic conditions will be watched very carefully and adverse developments will no doubt bring abrupt changes in monetary policy.

Observations

(Continued from page 1781)

team was, of course, necessitated by that annoying matter of Hitler's invasion of their country.

* * * *

Aggression is another concept bandied about the community without much rhyme or reason. Hitler's pleas for "Living Room" *(Lebensraum)* were laughed off and seen as an obvious excuse for aggression. Yet Moscow's (despite her possession of infinitely vaster territory) alleged need for inner, outer, and super-security belts, as an alibi for grabbing and infiltrating throughout Europe and Asia, is accepted as gospel by many of the same debunkers of Hitler. On Oct. 31, 1939, M. Molotov for the Soviet denounced Britain and France as the "aggressors" for continuing to fight after the fall of Poland. This followed Russia's attack on and partitioning of Poland. Yet now German war criminals are about to hang for the specific act of aggression against Poland. So if Hitler had not ruptured the Berlin-Moscow Alliance, and the war had still ended in his defeat, M. Molotov presumably also would now be awaiting the noose.

* * * *

Misuse of the term *liberal* is probably the most widely practiced of all our misnomering. But the outburst in this week's metropolitan "liberal" press against a political campaign committee which deems to oppose the CIO-Political Action Committee electioneering for its candidates, evidently marks the reinstitution of a special dishonest and cowardly, though effective, type of smear technique. Thus, for writing a rather routine solicitation of funds for overcoming "the PAC purge," General Robert E. Wood is castigated by a New York evening newspapers as "anti-liberal," an America Firster, anti-Soviet, anti-UN, anti-British, anti-Roosevelt, and anti-Semitic. All these unsavory people are represented as composing the part of the community which is nefariously plotting to overthrow "liberalism," liberty and democracy. The glaring logical error being in presuming to arrogate to labor and the Left-Wing, a monopoly in the practice of true liberalism.

* * * *

Our democratic system can, and does, weather a great deal of abuse. But its resilience is not limitless. It must be realized that one of the very greatest threats endangering it is the demagogic, emotional and rationalizing misuse of language. *Words are dangerous weapons!*

The "Marriage" of Britain and the U. S. In Germany

(Continued from page 1783)

zone can supply luxury and semi-luxury goods desirable as exports to raise foreign exchange for Germany's self-support.

"The most difficult problem of the bizonal merger is the degree of responsibility of the German Administration. The British have gone less far than the Americans in this regard heretofore. Until quite recently the Germans in the British Zone had only advisory capacities. Moreover, the British still have not all their laender set up. They have only one central economic office, which is really British-directed. That is the Central Office for Economics at Minden. During the last month, however, the Germans in the UK zone have been getting more authority.

"Admittedly, differences in viewpoint as to decartelization between the British and American authorities are deep and long-term, but so far as economic aspects of the merger are concerned, the decartelization ideas do not affect production or exports.

"Among the Germans themselves you have different ideas as to what should be done with industry. In some areas, socialization ideas are strong. For example, in Greater Hesse in the U. S. Zone, in their constitution they have laid down such government policies as ownership of basic industries, banking and insurance. There is a similar trend in parts of the UK Zone. It is very strong in the Rhine and the Ruhr. It is an excuse for creating in effect tighter cartels than ever. For example, all the coal trade in the UK Zone is now subsidiary to the North German Coal Control at Essen. Yet we have been breaking up cartels in our zone. On this subject of decartelization, therefore, we and the British at the outset of the merger have agreed to disagree.

"The main aim of the merger is increased output. We have broken up all Nazi organizations, Reich trade associations, and the like, and permit voluntary associations only in an advisory capacity. These associations have no part in the allocation of materials or markets, as the cartels did.

"The British in their zone started to use the associations for allocations, but now they have adopted our view on this subject.

"A second merger problem is to reconcile the different ideas on planning. As already noted, the British have a tight planning system, whereas we favor planning by such major commodities as steel, nonferrous metals, chemicals, textiles, etc.

"At present we are far from reaching the steel ceiling set in the level-of-industry plan, and we need coal. The steel ceiling won't be reached in 1947, unfortunately. If, as Mr. Byrnes stated at Stuttgart recently, the Saar is written off, that part of Germany's steel capacity assigned originally to the Saar will go to the combined area.

"Germany is just beginning again to make strides in the production of steel."

In connection with German ideas as to treatment of industry, banking, etc., the official quoted above observed that in the Russian Zone of Germany the old banks had been replaced with new State institutions. In the American Zone not much has been done about banking. In each of the three laender are the remnants of the former private and central banking systems. Each of the laender has expressed a desire to have its own central bank.

Nuernberg Today

(Continued from first page)

his nails in "the Palace" jail, where justice was meted out. Some here who have gone through the hell of concentration camps are already predicting that "it will be a political judgment, rather than a judicial one."

When the wives and families of many of the accused came from their last meetings at the jail, a small crowd gathered to watch them enter a school building for their lunch. They were well-dressed, these Nazi wives and children. They looked very harmless. Frau Goering and her daughter; Frau Doenitz; Frau Seyss-Inquart. There seemed, in the bright autumn sunshine, no connection between the soft fur cape worn by Frau von Schirach and the photographs of the skin-and-bone corpses before the crematorium of Mauthausen, which I had just seen; no relationship between the gaping jaws of the tortured and the spotless attire of Frau Funk, whose husband, although head of the Reichsbank, testified he knew nothing about the gold teeth the SS banked with that institution.

Most people in Nuernberg are not so well attired as these families. Even in the penetrating chill of the nights and early mornings these days one sees young women outdoors dressed only in cheap housedresses. And many of the men still wear the Bavarian leather shorts, doubtless saving their longer trousers for the winter ahead.

The women are mostly bare-legged, the people here indifferently or poorly shod and clothed, many here, as elsewhere throughout Germany, pulling carts and otherwise acting as beasts of burden. Germany now is again a have-not nation. People are very busy, just keeping alive. It will be a long and hard road to anything resembling normalcy here.[1]

Yet work is beginning—peacetime work. The rubble is slowly being cleared away. Here and there bricklayers may be seen at their tasks, even in the midst of seemingly hopeless ruins. Factories are starting to manufacture permitted goods, as circumstances permit.

I went through a Nuernberg plant the other day. Before the war this plant made 6,000 to 10,000 autos a day. (Detroit papers please copy.) I went through the "assembly line." I saw the auto bodies being stamped, the skilled workmen putting the parts together, the paint shop where the cars were being sprayed with gay prewar colors.

Contrast With Detroit

This was not a factory to frighten Detroit, however. It was one of Nuernberg's toy factories, working with the encouragement of the American Office of Military Government in Berlin to produce something for export so that Germany may again commence to pay her own way in the world. But revival of this trade must surmount many tough problems. It was to learn something about these problems as they seem to the German manufacturer that I called on Schreyer & Co., makers of "Schuco" toys.

Toy Manufacturing Renewed

These Nuernberg toys are no ordinary playthings, by the way. They represent a great amount of technical skill. Raw materials represent only a small fraction of the cost of the finished product. I saw in this plant, for example, a small racing auto with real differential gears and four shifts, including reverse. The steering wheel can be turned in any direction.

I saw a mechanical motor boat which, when started on a table top will go right to the edge but refuses to fall on the floor. When it reaches the edge of the table, it simply stops dead.

I saw a mechanical auto which starts and stops whenever told to do so. It works simply by the pressure of one's breath on a delicate mechanism. I saw a toy garage with a telephone on its outside wall. One calls into the toy phone, the garage doors open, then at a command the toy car enters the garage by itself and the doors shut.

In another toy factory here I saw mechanical boats, toy steam rollers and steam engines of various kinds which work with real steam, a toy submarine which will submerge seven times in a single "cruise," and other lilliputian marvels devised in this birthplace of the pocket timepiece.

According to Mr. Alexander Girz, manager of the Schreyer plant, old customers from pre-boycott days are again evidencing their interest in "Schuco" toys. After the boycott had decimated the firm's toy business, Schreyer became a war plant, making telephone equipment. Now it is operating at one-fourth capacity, making household hardware for reconstruction and toys on a small scale. In one year the firm hopes to reach its prewar toy capacity. But that depends on many things. "We have no peace yet, you know," Mr. Girz sadly remarked. "What happens in this business doesn't depend upon us." Raw materials are extremely scarce. But the Germans have the know-how for this business. They can sell the above-mentioned racing car for two or three marks wholesale. That would be 20 or 30 American cents f.o.b., at the military rate of exchange. But there is no **commercial** rate of exchange.

Said Mr. Girz: "The most important thing for us in Germany is to be able to import raw materials. We need freedom to trade with other countries, we need a rate of exchange, and we need stabilization of the mark, both internally and externally. Finally, we need economic unification of Germany.

"Before the war, for example, we bought our zinc in Eastern Germany. Today, so far as I know, Germany gets no zinc from any source. We need in our toy business some Swedish steel. We need raw materials from Czechoslovakia. We need wool for our dancing dolls and animals.

"Until these matters are straightened out, we cannot look for a full revival of our toy business. Before the war we had 500 workers. Now we have about 150."

Mr. Girz has no home of his own, since the blitz. He lives at the plant in a part which was not bombed or burned. The plant had several fires during the war.

Residential District Industrialized

The factory buildings of the Gbr. Fleischmann in Nuernberg are in a part of the city which the uninitiated visitor might regard as almost entirely residential, an apartment-house neighborhood. Yet here are turned out mechanical toys which are practically working models of modern machines. "Before the war," Mr. Fleischmann told me, "about three-fourths of our output of toys went abroad; and of that, half went to the United States. The anti-German boycott hit us very hard, before World War II. Our main problem, perhaps, is materials. For a toy, the cost of the material is only a small part. On our toys, such as boats and electric trains, etc., there is a great deal of hand work. In the United States such work is very costly. So even when the boycott was on one of your big New York department stores still bought some of our ships, because they could not get them elsewhere.

"Our materials problem today is mostly that of brass and tinplate. We can make a 'steamer' like this one, which is 25 centimeters long, or about a foot and a half, for about seven marks today or only slightly more than before the war. That is the f.o.b. wholesale price. We used to figure before the war that the landed cost in New York was about double our export price. Such a boat used to sell at retail in New York for about five dollars.

"We have arranged the sale of some toy boats, steam engines and trains to the United States Army Exchange Service for sale in Army PXs. Goods for export direct, we sell to OMGUS in Berlin. There is at present no other way to handle it. We need, of course, a dollar rate of exchange. If we are to do business with the United States again, we must once more find a way to contact our old customers, with whom we have had no contact for about 10 years. Our customers should be able to send buyers to Germany. There is a market for our toys in the American department stores and mail order houses.

War Damage

"When we lost the American market through the boycott we had to turn to other activities. During the war we were a war plant, making cartridge belts for machine guns. About 60% of our factory was damaged during the war. Had it not been for our own water tanks in the yard, our pumps and fire-fighting organization, this plant would have been destroyed entirely. While the machines were heavily damaged, we saved all our tools.

"We now employ about 120 persons, as compared with 250-300 before the boycott. During the war we had as many as 320. One of our chief lacks today is skilled workers. And even the non-skilled workers are hard to get. A girl who gets a pack of cigarettes worth 70 marks from a soldier isn't attracted by a wage of 25 marks a week.

"Patents are also a problem. Our patents registered abroad are now vested by the Allies. Even so, we feel that we can compete with American manufacturers when it comes to price. We have new ideas, as well, but for the present these blueprints merely remain locked up in the safe. Nobody here knows what he can do with new patents.

Confiscatory Taxation

"Taxes take today 90% of our earnings, just as if we had suffered no war damage, no bad debts for munitions delivered to the German government during the war, etc. One of our competitors tells me he is actually paying in taxes of all kinds 114% of his company's earnings."

According to one of the toy manufacturers here, the British Military Government will not consent to supplying from its zone of Germany an essential metal product needed in its business.—"temperguss"—if the metal is to be used to manufacture for export.

Potential Competition

Some British typewriter manufacturers who were in Germany some time ago, I am told, expressed concern at the prospect of German competition. They calculated that the Germans at the military rate of exchange for the mark could make a typewriter to sell in England for one pound sterling, as compared with a comparable British typewriter selling at seven pounds. Some Britishers are wondering whether Germany is to be the "Japan" of the future.

Now that the Nuernberg verdicts have been handed down the Allied jurists will take up the "further proceedings," those against industrialists and business men. Whether the first case to get to trial will be that of the Krupp empire or I. G. Farben is not yet decided.

[1] An anachronism at the courthouse gate was a large tourist bus from Berne, Switzerland, filled with well-dressed healthy-looking travellers. How such a busload got here is a passing marvel.

Joseph Herbst Joins Lawrence Printing Co.

Joseph D. Herbst, after a long association in the financial community, has joined the Lawrence Printing Company, Inc., 80 Greenwich Street, New York City, and will specialize in Wall Street Printing.

Mr. Herbst was assistant treasurer of Braham, McElroy & Co., Inc., in the Trading Department of J. L. Schiffman & Co., and the Cashier's Department of Hirsch & Co.

He participated in the Rhineland and Central Europe Campaigns as a member of the 69th Infantry Division and also saw service with the 29th Infantry Division and the 78th Infantry Division.

Marshall Barlow VP of Robt. E. Schweser Co.

OMAHA, NEB. — Marshall J. Barlow, formerly in the municipal bond business in Des Moines, Iowa, has been elected as Vice-President of Robert E. Schweser Company and will be in charge of the Municipal Buying Department.

Mr. Barlow was formerly an officer of Carleton D. Beh Co. of Des Moines. His association with the Schweser Company was previously reported in the "Chronicle" of September 26th.

W. H. Bell & Co. Adds Four to NY Sales Staff

W. H. Bell & Co. Incorporated, 50 Broadway, New York City, announces that Arthur J. Costy, Clinton W. Frasier, Fred G. Kuhlman and Eli Urdang have joined the firm's sales organization.

Canadian Securities

By WILLIAM McKAY

Tampering with the rate of exchange has never provided a sane solution to economic problems. When an overvalued exchange level is subject to external pressure resistance is both difficult and costly. When, however, a currency is undervalued, a competent control can not only master the resultant outside pressure but can also turn it to good account.

The recent abrupt step which led to the upward revaluation of the Canadian dollar was apparently taken in desperate defense against mounting inflationary dangers outside the Dominion. In spite of previously announced intentions to preserve the 90 cent dollar on which foundation a stable Canadian economy had been laboriously built, a 10% defense was hastily employed to counter a 100% menace. Basic export industries were suddenly deprived of an existing advantage and were recompensed either by internal subsidy or by price increases which only serve still further to add to the external inflationary forces pressing on the Canadian internal stability.

Hitherto the fabric of the Canadian economy has been cautiously constructed from within and by dint of able management and careful control it has been largely insulated from undue external influence. This policy succeeded to the point that the Dominion, in an economicaly troubled world, stood out as an oasis of stability. Reluctant as Canada was to maintain rigid exchange restrictions, the favorable results achieved with a minimum of detriment to foreign interest proved the wisdom of this policy.

Today the prospects for immediate universal relaxation of controls appear increasingly remote. Consequently the Canadian fears of a sudden overwhelming inflationary wave from south of the border could have been met by the temporary erection of still higher barriers. Such a course of action would have met little criticism as the apparent immediate danger was monetarily very real. Greater than the embarrassing pressure of an accelerated speculative buying movement of Canadian internal securities, was the risk of a tremendous outflow of goods at uneconomic prices. Just as additional temporary restrictions could have been placed on security movements, in a similar way additional export controls could have been imposed to prevent an undue outflow of Canadian commodities.

As it is likely to transpire, the inflationary wave in this country has probably reached its peak and safeguards taken in the meantime will probably be necessary only as a temporary measure. From the Canadian point of view however the problem of the protection of the domestic economy should not be considered only from the angle of countering movements emanating from without. On the contrary the line of approach should be in the direction of bolstering the economy from within.

Canada has achieved a prodigious volume of production in comparison with the size of its population but it is unduly dependent on foreign markets in view of the small domestic consumption. Furthermore the Dominion's newly developed industries have to rely to a large degree on the import from this country of necessary component parts. Consequently Canada is highly vulnerable to external influences especially those emanating from her colossal neighbor to the South.

Exchange manipulation and the erection of insulating barriers therefore provide only a temporary solution. In order to correct the existing lack of balance and to build up a greater measure of economic independence Canadian long range policy will have to envisage a definite immigration policy and the means whereby Canadian industry can function integrally. Then only can Canada realize her high destiny and thus permit a fuller development of her unrivalled resources to the universal benefit.

During the past week the security markets continued their sluggish course. There was still no interest displayed in external bonds but internals still met a good demand. Purchases of internal bonds however were offset by sales of stocks. The settlement of the steel strike which should foreshadow the termination of the stoppages in other industries, was not a sufficiently powerful factor to strengthen the Canadian stock markets in face of the continued weakness here.

While the Canadian dollar in the unofficial market remains at a sizable discount, internal bonds are still attractive for investment purposes. Thus the manipulation of the official rate has done little to check the external drain on internal securities, but if free funds were brought in line with the official rate then no doubt the outflow would be stemmed.

New York Security Dealers Ass'n Dinner

The New York Security Dealers Association held a dinner at the Waldorf Astoria Hotel on Oct. 8, following a closed meeting of the membership.

Frank Dunne, Dunne & Co., chairman of the Public Relations Committee of the Association discussed the proposals of the Securities and Exchange Commission recently made regarding corporations with 300 security holders and $3,000,000 in assets.

Philip L. Carret, Carret, Gammons & Co., a member of the Board of Governors, also discussed the subject.

The principal guest speaker was Allen MacDuffie, whose speech is printed elsewhere in this week's issue of the Chronicle.

Clarence E. Unterberg, C. E. Unterberg & Co., president of the Association, presided at the meeting.

Maurice I. Pitou Dead

Maurice I. Pitou, retired New York stock broker died at the age of 60. Mr. Pitou joined the brokerage firm of Walker Brothers as a young man. He became a partner 20 years ago, and retired three years ago.

The Stock Break—Why? What Next?

(Continued from page 1784)

six weeks—the longer you stayed away from your business the bigger the balloon of personal ego became. We became vulnerable for the "touch" or "sock." This has never been a business of easy money and never will be. Easy money is unhealthy and non-appreciated earnings. The hundred-penny dollar will always have to be earned. Yes, I guess we had it coming to us.

Postwar Prosperity Vulnerable

I have felt right along that we had skipped over the period of adjustment between War and Peace too blithely and quickly. A world-wide abortion of the nature of World War II has vast and far-reaching social and economic consequences that cannot be dismissed lightly by blind optimism.

It appears to me that this period of "prosperity," so quickly entered upon, was all on blue-prints. Sixty million were employed and production was increasing. But I personally didn't see the results of it. Did you?

Take a typical example — a small-parts manufacturer. The manufacturer of radio condensers, with prewar sales of a few thousand gets inflated ideas. The Army and Navy "E" flies from his factory flagstaff—and rightly so. He earned it then. But he now wishes to remain in the million-dollar sales bracket which abnormal war work made possible for him. His blueprints read: Manufacture all the condensers, not alone the best. Enter into a complete program of the finished radio and compete directly with his own customers. Include the addition of several other lines: irons, heaters, fans, toasters. Many of these products he knew little about and had no business attempting to manufacture. It's the way of the Americans—"Hit first and reason later!" It pays off when it clicks. But you really have to have it to come out a winner.

All this reminds me of an answer I once gave a fellow going into business. On replying to his question, I recommended that he do so providing he had two bankrolls—one for making mistakes. That's the principal weakness of a lot of corporations today; new ventures without the required knowledge and capital to compensate for mistakes if things go wrong.

With this obvious weakness in many industries and corporations, I believe that adjustments have to take place. That the majority of companies of small business and sales of prewar times will have to take their licking, swallow their pride, and set back to their normal and true position in industry.

Such a reversion, I believe, will create various conditions: Principally, there will be a sudden cleaning out of inventories, particularly those of an unfinished nature. Inventories in the hands of industry at present amount to $18,300,000,000 and this could prove to be a major item in earnings and production. But, to my reasoning, the situation is top-heavy and I believe, though I am not certain, that this is made up in large part of unfinished articles undated as to the completion possibilities.

I know, as you do, a cleaning out of this inventory will result in major losses. Lower assets equal lower values: Lower production means lower earnings and scant dividends. These truths are yardsticks in our business and cannot be ignored.

I feel that it could be that we will return to the period that was foreseen and anticipated at the end of the war, but skipped over. I feel that we will yet witness unemployment rather than maintain sixty millions at jobs.

How Long Will It Take to Readjust?

How long will this take and last? I feel that it will all take hold quickly as to the adjustments by industry and that the period will be fairly brief, possibly six to nine months. The earlier the necessary action is taken the sooner the upturn. But if adjustments are necessary and industry delays too long, the cost will be greater and the upturn delayed through the lack of working capital depleted by carrying a costly problem too long.

I believe that we can use as a measurement the business indices and the Dow averages. This yardstick I have mentioned above is my own thought, and is not the product of charts or advisers. This is one time I hope I am wrong. Facts must be faced no matter how unpleasant.

Prewar and Postwar

Looking back, I feel that we were pulling out of the depression in 1942, the last year of normal business, without the effect of war work and its results. I believe the trend at that time was slowly upward. The low point in the averages then was approximately 92. I believe that without the war that progress would have been made. It is also a fact that progress and wealth have been made through the results of the war which can be applied to corporations' net value in dollars, knowledge and equipment.

I believe that over this same four-year period, if we were at peace, that a 50% improvement would naturally have taken place in business—or approximately 138 in the Dow averages. I have picked the averages to be maintained at around 152, based on half the distance between the undervalued level of 92 and the overvalued level of 212 (reached May 1946). One hundred and fifty-two is the point at which I believe that we shall see this market "go," and which will be the end of the bear-market. Exaggeration will again possibly see it a little lower and prolonged beyond its true time, but generally 152 is a focal point.

That's the takeoff point that I am looking forward to. Unless major events take hold to change my opinion, one way or another, I am not making permanent investments now nor will I be deferred in starting to make them around that point. The years of real bull markets and business that will come would dictate such a course.

Harrison Hopper With Cohu & Torrey

ST. PETERSBURG, FLA.—Harrison Hopper has become associated with Cohu & Torrey, members of the New York Stock Exchange, in their St. Petersburg office, Florida National Bank Building. Mr. Hopper was formerly with the New York City office of John Nuveen & Co. and prior thereto was Manager of the trading department for D. E. Arries & Co. of Tampa.

Donald Thayer With Cantor in Boston

BOSTON, MASS.—B. G. Cantor & Co. announces that Donald F. Thayer is associated with the firm as Manager of the Boston office, 161 Devonshire Street.

Baruch Defends His Atomic Control Plan

(Continued from page 1785)
the quick and the dead. That is our business."

America asks nothing she is not willing to give. All of us must make contributions.

But I would be recreant to my trust if I dared to recommend the immediate abandonment of a major weapon in our arsenal—the bomb. How can any one ask destruction of existing bombs unless their further manufacture is effectively prohibited? Why should America alone be asked to make sacrifices by way of unilateral disarmament in the cause of international good will? If equality of sacrifice be needed, then each should participate.

I firmly believe that the American proposals plead the cause and contain a rough approach to the abolition not only of one instrument of war but of war itself.

I now say that America stands ready to proscribe and destroy the atom bomb—to lift its use from death to life—if the world will join in a pact to ensure the world's security from atomic warfare. But it must be a realistic working pact—not merely a pious expression of intent, wholly lacking in methods of enforcement.

The Soviet's Protest

Our proposals were submitted on June 14. Some weeks later came the frank, unqualified statement of Ambassador Gromyko, declaring the American plan, as presented, unacceptable to the Soviets, either in full or in part. He has repeated this position several times.

The Soviets protest that inspection violates national sovereignty. Better that—than international disaster. America is willing to accept inspection as a control measure and for some time America would be the most inspected.

I am at a loss to understand why national sovereignty should be made such a fetish. Other international processes require the presence of officials of one nation within the territory of another; they include customs, mails, treatment of war prisoners, and so forth. Every treaty involves some diminution of absolute national sovereignty, but nations enter into such treaties of their own free will and to their common advantage. Indeed, freedom to enter into such voluntary international arrangements is inherent in the very concept of national sovereignty.

In this connection, it is interesting to note that the distinguished Scientific and Technical Committee of the Atomic Commission recently unanimously reported that control of atomic energy is technologically feasible, although it carefully refrained from going into the question of political feasibility.

It is important to understand that the methods of creating atomic energy for peace purposes and for war use are the same up to a very advanced point. In obtaining atomic energy for peaceful uses, you have gone about 75% of the way toward a deadly weapon. The deciding factor is the good or evil intention of those engaged in the manufacture. Does that not demonstrate the absolute need for inspection and control?

I say to you with all the weight of my experience that the American plan does not impair any country's national dignity or national security. It is a great forward motion toward international peace. Where there is a will, a way can be found.

World Not Afraid of Internationalism

The peoples of the world—as I said in June—"are not afraid of an internationalism that protects; they are unwilling to be fobbed off by mouthings about narrow sovereignty, which is today's phrase for yesterday's isolation."

On the question of principles, it is an inalienable right each of us has to express opinion on every policy animating this country, whether national or international. That is the highest function of those who live under a political democracy; of those who cherish the right of free speech. Every man has the right to an opinion, but no man has a right to be wrong. Nor, above all, to persist in errors as to facts.

It was my lot to submit the first design to the Commission which acts for all of the fifty-one countries now in the United Nations. It was strikingly well received except in a few isolated instances. But, as we know, there is a difference between a creator and a critic. Each is important. The first job is the harder one. A distinguished writer said in paraphrase: he who can, does; he who can't, criticizes.

Here are the irreducible minima essential to the effective control of atomic energy:

1. Control through an international agency of the production and use of uranium and thorium, of fissionable materials, and of their products to the extent necessary to ensure their use for peace and prevent their diversion to war. The control must include:

a. Free access for international inspection sufficient to prevent unauthorized activities in atomic energy or to detect them soon enough to protect complying states against the hazards of violations and evasions.

b. Sufficient control of each step in atomic energy production to prevent diversion for illegal purposes.

c. An international agency with resources and authority adequate to carry out its day-to-day responsibilities.

d. Provision for the international agency to lead in atomic energy research so as to make it an aid to social purposes and carry out effectively its preventive operations.

2. Prohibition, including provision for swift and certain punishment, of the following activities;

a. Illegal possession or use of an atomic bomb.

b. Illegal possession, or separation of, atomic material suitable for use in an atomic bomb.

c. Seizure of any plant or other property belonging to or licensed by the international control authority.

d. Willful interference with the activities of the international control authority.

e. Creation or operation of dangerous projects in a manner contrary to, or in the absence of, a license granted by the international control body.

3. Transition to full international control by successive stages to be specifically set forth in the treaty and agreed to by all. The stages must be so designed as to be fair and equitable to all nations; they must bring the system of safeguards fully into being as rapidly as possible; and they must not endanger any nation's security in the event of a breakdown during the process of transition under the treaty.

4. Provision that no nation which has accepted the international control treaty can be protected from punishment for violation of its terms through use of a veto whether cast by the violating state or by any other nation.

U. S. Makes Full Contribution

To avoid misunderstanding, I quote from our original declaration:

"My country is ready to make its full contribution toward the end we seek, subject of course to our constitutional processes and to an adequate system of control becoming fully effective, as we finally work it out." By "we," I mean all participating nations.

Let me announce again this thought in our program:

In the elimination of war lies our final solution, for only then will nations cease to compete with one another in the production and use of dread "secret" weapons (atomic, biological, bacteriological, gas and others), which are evaluated solely by their capacity to kill. That devilish program takes us back not merely to the Dark Ages but from cosmos to chaos. If we succeed in finding a suitable way to control atomic weapons, it is reasonable to hope that we may also preclude the use of other weapons adaptable to mass destruction. When a man learns to say "A," he can, if he chooses, learn the rest of the alphabet.

We are eager to follow this code. We pursue a policy of enlightened selfishness. But when, at long last, peace comes, it will come to all. And in that consummation, America wants to—and will—take a leading part.

Now in the evening of my life, I reaffirm my faith in this country of ours—this infinitely patient, this quick-rewarding, this slow to anger, bold, independent, just, and loving Mother of us all.

To uphold her, we oppose dictatorship of the Right or of the Left. We oppose despotism. We oppose totalitarianism. We oppose slavery, whether imposed by the State or imposed by the individual. We are ready for change when change is marked by wisdom. We are consecrated to the pursuit of happiness, which means the betterment of man. Some of our qualities have been slow to mature, but they are growing. I am proud of our virtues and certain that our faults are under correction.

I know no other way to widen our horizons than by the preservation of free initiative, but with it must go responsibility for the preservation of full opportunity—political, religious, social and economic.

I know no better way to preserve these rights than by democracy—an ever-deepening, ever-widening democracy—a democracy—a democracy that gives us, as a poet phrased it:

"Ancient rights unnoticed,
As the breath we draw:
Leave to live by no man's leave,
Underneath the law."

Stifel, Nicolaus Adds Three in Chicago

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — Edward A. Leinss, Joseph A. Nolan, and Chapin N. Wright have become associated with Stifel, Nicolaus & Co., Inc., 105 West Adams Street. Mr. Leinss, prior to serving in the U. S. Army, was with Earl I. Custin & Co. for many years. Mr. Nolan has recently been with Seipp, Princell & Co. Mr. Wright prior to serving in the armed forces was an officer of Fred E. Busbey & Company.

Harvey B. Craven, Jr. With Herrick, Waddell

LAKELAND, FLA.—Harvey B. Craven, Jr., has become associated with Herrick, Waddell & Co., Inc. Mr. Craven was previously an officer of Craven & Smith.

Securities Salesman's Corner

By JOHN DUTTON

A common fault of many salesmen is that they tend to avoid their customers, especially when things are going a bit rough and paper losses are taking the place of profits. This is one time when that popular new tune, "Doing What Comes Naturally" may be the course that your emotions tell you is the easiest to follow—but it is not the correct policy for you to pursue. If you desire to keep your customers and HOLD THEIR GOOD WILL the time that you SHOULD see them is when **THEY NEED YOU.**

Human nature being what it is, causes most of us to follow the lines of least resistance. When business is good we tend to let up on our efforts. When security prices are declining we find excuses for not working, such as bad markets, unfavorable outlook, etc., etc. Most of us are lazy. We look for escape outlets when problems present themselves, instead of facing the issues squarely and working out their solution. There are few difficulties which we face in life that cannot be solved if we think them out, find a plan and go to work.

In this connection there is only one thing that will solve your present problem, if it happens to be one of temporary discouragement that has been caused by the current unsettled economic and market conditions. THAT IS TO REPLACE INACTION WITH ACTION. If you have been sitting around the office—passing time in wondering what you should do next, and incidentally worrying a bit about the future. GO OUT AND SEE YOUR CUSTOMERS AND GO TO WORK. Just as soon as you begin constructive thinking and get busy working out possible trades, suggesting tax purchases and sales, or replacing weaker situations with those that are in a stronger position; you will find that your own pessimism will vanish.

YOU CAN ONLY HAVE ONE THOUGHT IN YOUR MIND AT A TIME. If you are busy working along positive, constructive lines, you are going to have mental health. A busy man hasn't time for destructive thinking. There is a therapeutic value that can be derived from positive activity—that is another reason why work is good for all of us.

It seems worthwhile to mention, however, that periods of alternating optimism and pessimism are only natural with a good salesman. They are not to be taken too seriously. If you were the type of person that could be satisfied doing a routine job on an assembly line, which varied little from day to day and required no creative ability, you wouldn't have such problems to solve. THE RIGHT THING TO DO IS KNOW YOURSELF AND MASTER YOURSELF. This you can do best by facing conditions squarely—see your customers now—go back to work—have faith in yourself—and in the ultimate future of sound business enterprise in this country. With such a creed as this you are betting on the best possible set of principles that you can find anywhere.

So. Carolinians Visit NYSE

Ransome J. Williams, Governor of South Carolina, accompanied by J. S. Williamson, Chief Highway Commissioner of the State, and O. P. Burke, Secretary-Treasurer of the State Highway Commission, visited the New York Stock Exchange on Oct. 8 and were welcomed by Emil Schram, President, and John A. Coleman, Chairman of the board. Temple E. Dalrymple, Assistant Treasurer, Guaranty Trust Co., escorted the visitors to the Exchange. They inspected the trading floor, the ticker department and the Board of Governors' room.

Geo. F. Jones Co.

BUFFALO, N. Y.—The George F. Jones Co., Inc., has been formed with offices at 505 Delaware Avenue to engage in the securities business. Officers of the new firm are George F. Jones, president, and D. Sinclair Scott, secretary-treasurer.

Four With Draper, Sears

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS.—Draper, Sears & Co., 53 State Street, members of the New York and Boston Stock Exchanges, have added to their staff Arthur H. Goodwin, Jr., Paul D. Meehan, Charles L. Munroe and Thomas G. Murtha.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

Base now being formed. Don't expect any sharp up move without more dullness. But the longer the dullness after a decline the greater the "up" possibilities on a rally.

Nothing exciting has happened since the previous column was written. At least nothing exciting so far as the market is concerned. The past seven market days have been given over to backing and filling, though the former seems to dominate the picture. But all during the process the lows of 164 and a fraction have held. Maybe this isn't much to boast about. But in a market which runs like a scared rabbit every time somebody belches this refusal, or call it hesitancy, to scare any further, is worth noticing.

* * *

The confusion which started when the first crack hit the unsuspecting, those who were confident that a new era had arrived, is gradually being dissipated. I don't mean the situation is being cleared up and confidence is returning again. Nothing like it. The situation is analogous to the man with an old headache. At first it's painful but after a while he becomes accustomed to it. That's the way it is with the market. When it first started down you could hear the chatter of teeth and the trembling of knees. But now that the market is down and hasn't gone down any more the fears and tremblings are sort of forgotten.

* * *

The analogy can be carried further. A neglected headache which becomes chronic may hide a serious organic condition. A market which tumbled and stays on its back may also be indicating something wrong.

* * *

I know that arguments and second guesses of what made the clock stop are pointless. At best they solve nothing and, who knows, may even get you a bloody nose or discolored eye if you argue too much.

* * *

The big problem we face is to decide what the market will do from here on.

* * *

Last week I gave you two points to watch in the averages. The first one was 164, the second 175. So long as the market stayed between those two figures there was nothing concrete to point to. Prices would have to move out of that area to indicate anything.

* * *

As this is written the averages are approximately 169, moving up or down a point or so. While such action isn't conducive to yelps of glee neither is it indicative of moans of misery. All this, however, doesn't answer the important question which added up means "What, from here on?"

* * *

Well, based on past performances, any danger which is averted, even though temporarily, may mean that sufficient forces will arise to make this temporary condition last a long time, perhaps even permanently. This sounds like I'm saying that there'll be no more reactions. Of course, that's silly. I don't know if they'll sell off more or not. What I mean is that for the time being it looks like the immediate danger of more sharp breaks is over.

* * *

I don't base this on any statistical or fundamental causes. A balance sheet drives me crazy. A study of future business prospects based on learned reports is equally useless. I continue to stick to market action as a gauge for future market action. For it is in market action that you see the translation of the beliefs and hopes of millions who daily buy and sell securities. A lot of this action is frankly speculation. But without speculation I doubt if there would ever be distribution or accumulation.

* * *

A few weeks ago we saw distribution. It started at about 195 and lasted all the way up to 212. The subsequent break was caused by public selling. Right now the first fragmentary signs of accumulation are beginning to appear. These may be false harbingers. Perhaps we first have to see the conditions that the market said were coming before a solid base is built. But whatever the outlook the market is now pointing, if not to advance, then not to any more than a minor decline.

* * *

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.]

Business Man's Bookshelf

Basis and Development of Fair Trade, The—a compendium of the economics and the law of fair trade, in operation in 45 of the 48 states, including an interpretive analysis of all court decisions on the fair trade laws, samples of the fair trade laws and other laws relating to fair distribution, and model fair trade contract forms suitable for use under the fair trade laws—the National Wholesale Druggists' Association, 330 West 42nd Street, New York 18, N. Y.—paper $5.00.

Financial and Operating Data of Thirty Oil Companies for the Year 1945 — Joseph E. Pogue and Frederick G. Coqueron — The Chase National Bank of the City of New York, Pine Street corner of Nassau, New York 15, N. Y. —paper.

World Markets — international trade weekly covering raw materials and commodities—review of reports to be printed every week in Spanish, French and English — Atlas Publishing Company, 425 West 25th Street, New York 1, N. Y.—year's subscription $10.00.

United Nations, The—A Handbook on the New World Organization by Louis Dolivet, with a preface by Trygve Lie, Secretary-General of the United Nations—Farrar, Straus and Company, 580 Fifth Avenue, New York 19, N. Y. —cloth—$1.75.

With A. W. Benkert Co.

Thomas J. Crockett, Lowell Mason and William A. Yeagher, Jr. have joined the staff of A. W. Benkert & Co., Inc., 70 Pine Street, New York City.

100% Margins and the Market Break

(Continued from page 1789)

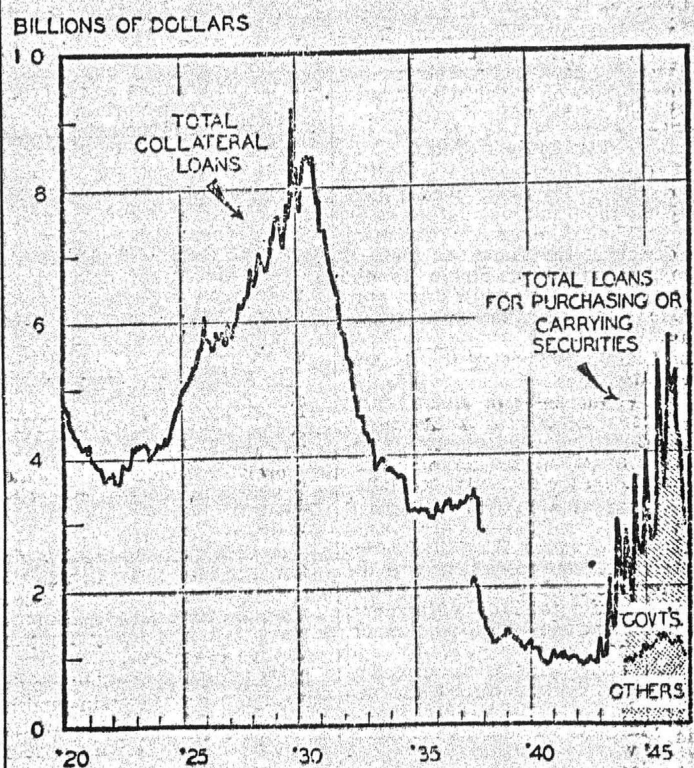
gins plus profits made earlier in the year provided cushions for absorbing losses.

In addition, capital in the investment banking business has been increased substantially in recent years and at the same time risks in security flotations have been more widely distributed than ever before. For example, on the $38 million offering of Cincinnati Gas and Electric common stock on Sept. 11 the risk was spread among 228 underwriters, no one of whom was committed for more than 3⅛% of the total. Ten years ago an issue of this size would have been handled by perhaps no more than a fifth this number of underwriters, and the distribution of risks then was already much more widely spread than in the '20s.

The accompanying chart shows the dominance of borrowings on U. S. Government obligations in the security loan picture of recent years, the peaks and valleys generated by the successive war loan drives, and the modest volume of loans for purchasing or carrying securities other than governments. The division of loans against U. S. Governments and other securities is not available prior to 1944; and before 1937, the "purpose" distinction was first made in the reports collected from the banks, all collateral were lumped together. Inasmuch as loans on governments were a relatively small factor in the whole interwar period, and the bulk of security loans made in the '20s was on corporate stocks, the magnitude of the change is apparent.

Security Loans of the Weekly Reporting Member Banks in Leading Cities.

(Upper section of shaded area represents loans against governments, lower section loans against other securities.)



Borrowings of Stock Exchange Members

Figures reported by members of the New York Exchange which carry margin accounts tell the same general story. Customers' indebtedness to brokers partly on the security of government obligations, has been declining steadily since the 100% margin regulation was put into effect. The total for Aug. 31 was down to $723 million, or practically the lowest levels reached in 1932 and 1933 after the precipitous decline from the 1929 peak. Borrowings, from all sources, by members carrying markin accounts came to only $377 million of which a part was secured by government obligations. At the same time, customers had built up free credit balances with brokers of $647 million, available for security purchases.

It is significant also to note the low proportion of borrowings by members of the New York Stock Exchange to the total value of stocks listed on the exchange. On Aug. 31, just before the September break in stock prices, listed shares were worth $74,350,000,000. Against this amount, total member borrowings of $509 million amounted to only 68/100 of 1%. From January, 1926—when such ratios were first compiled—up to the stock price collapse of October, 1929, this proportion ran between 8 and 10%. Since the depression low of 1.18% at the end of July 1932, the ratio at no time exceeded 3.14% (June 1934). The 0.68% figure for Aug. 31, 1946, is the lowest ever recorded.

That 100% margin requirements and absence of credit support for stock holdings do not eradicate wide swings in stock prices is abundantly clear. With investors and speculators free to buy and sell, there is nothing to prevent their collective judgments from being registered in the price quotations. Just what effect 100% margins has had on stock price movements remains a disputed point. The unquestioned fact is that the stock market is in an unprecedentedly liquid position.

However the economic panorama unfolds, the painful task of paying down loans on stocks that have declined in market value will not be a serious drag on consumer spending.

Mitchell With Merritt

William H. Mitchell has become affiliated with King Merritt & Co., Inc., 55 Liberty Street, New York City. Mr. Mitchell was previously with Investors Syndicate in their Portland, Me., office.

Carrick With Livingstone

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF.—John A. Carrick has become associated with Livingstone & Co. 317 Montgomery Street.

Requirements for Export Trade

(Continued from page 1784)

elements in the determination of the fields of economic activity most appropriate for and most likely to be successful in that country.

The degree to which all those natural, human as well as financial factors exist favorably and combine efficiently, ultimately determines, for each area of the world, in what field of economic activity each nation can specialize to advantage. The fitness of a country to produce certain commodities or provide certain services is, in the end, evidenced by its ability to manufacture or supply them cheapest.

Immense Benefits of Foreign Trade

Provided the exchange of goods and services is unhampered through the channels of international commerce and finance, the benefits that befall society through intelligently selected specialization of activities are immense. The volume of consumers' and producers' goods that thus becomes available for the satisfaction of human wants, is vastly increased by the possibility of producing them where they can be supplied most economically; that is, in the largest quantity per unit of investment of labor, management and capital.

The principle of specialization, however, should not be misconstrued as denying nations having no decided advantages in any field of production or service, any opportunity in participating in the productive cycles of the world.

From the point of view of the general welfare, it is desirable a country devote its resources not only to the expansion of those enterprises for which it especially qualifies but confine those activities to lines where its comparative advantage in the cost of production is greatest; reciprocally, unfavored nations should limit manufactures to those fields where comparative disadvantage is smallest.

It may, however, be wise at times for a nation to foster in their infancy undertakings having eventual economic potentialities or encourage uneconomic activities vital to its defense or protection.

Peoples of nations poor in resources will produce less wealth with their efforts than the people of rich nations, but if they avail themselves of the opportunities of foreign trade, the volume of goods available to them through exchange will be far greater than if they attempt to produce all things.

No nation is self-sufficient. Policies aimed at promoting self-sufficiency through artificial restraints and barriers to volume importation of needed or desired commodities, is detrimental to a country's welfare. They remove labor, management and capital from the fields of activity conducive to the best return to the nation, breed wasteful economic processes, and increase costs of production, thus lowering wages, profits, purchasing power and finally living standards.

Indispensable Conditions of Foreign Trade

Now as to a few of the indispensable conditions as a basis for Foreign Trade:

Specialization is the necessary prerequisite of international commerce but not sufficient unto itself.

To make the wheels of foreign trade turn, three other conditions must be respected, the first having to do with the availability of the products to be exchanged abroad, the second with the possibility of settlement of international financial obligations resulting therefrom, and the third, with the ability of the end-consumers in importing countries to pay for the products imported.

Specialization selects the types of industries which can be economically established in a country but does not determine the time at which these industries will actually begin to sell their wares abroad.

The point at which the real business of exportation will be initiated by the specialized industries, is the time at which a permanent excess of production over the domestic demand, has been attained. Experience has repeatedly indicated that no industry looks for a stable export trade as long as the home requirements easily absorb output. Opportunistic export business, so common in the United States, contributes little firmness to the texture of international relations and is not worth considering.

The second condition establishes the ability of foreign importers to make payment in foreign exchange for the goods purchased without resorting to transfer of gold; it reaffirms the necessity of the maintenance of the Balance of the International Payments of the trading nations.

It is of importance further to point out that continued imports of gold, in payment of exports of goods and services, react unfavorably on the economy of both the exporting and importing countries, weakening the financial structure of the nation deprived of gold and eventually increasing the price levels in the exporting nations, taking payment in gold.

The last indispensable condition of foreign trade relates to the ability of the ultimate consumers, in the foreign markets to buy the commodities and services exchanged.

To prevent imported goods remaining unsold on the merchants' shelves and services unutilized, there must be sufficient purchasing power in local currency, and an overall availability of foreign exchange to permit remittances to the originating country.

The physical and human conditions which determine the superiority of a nation in the production of some commodities and services internationally traded, usually are not restricted within the boundaries of a single nation but cover larger areas of the world; hence, with very few exceptions of which diamonds is an outstanding one, competition remains open between a number of countries. Even when the production of a commodity is limited to a single nation, competition still exists between the various producers of that nation, unless the country is ruled by a regime of managed economy. So, American manufacturers of steel, automobiles, electrical goods, etc., are highly competitive at home and abroad.

Changes in U. S. Trade Relations

In the three quarters of a century preceding the last war, sweeping changes occurred in the picture of the business relations of the United States with the outside world.

Prior to the depression of 1873, a persistent excess of imports characterized our merchandise trade, which was counterbalanced by heavy investments of foreigners. After the 1873 crisis, an excess of exports appeared, limited in the beginning but progressively swelling into rivers of American goods for export during the early 20's and late 30's.

The character of our international trade also underwent striking change.

Raw materials and foodstuff, which previously constituted the main classes of our contribution to the international movements of goods, were gradually replaced by semi-manufactured and manufactured articles. The importance of Europe as a recipient of our products rapidly declined, while the Americas, Asia, and to a lesser extent, Africa, imported more and more of our products.

On the other sides of the balance, our imports, which in the early days were principally composed of finished manufactures, progressively changed to crude materials and semi-manufactures. Europe lost its outstanding sales position and the Americas, Asia and again to a lesser extent Africa, emerged as important suppliers of our needs.

Must Be Willing to Import

But one factor in this picture must be recorded and wisely considered. The physical volume of our imports of foreign goods, did not, over this same period, keep pace with the rhythm of our expanding economy.

The reason for this is not hard to discover—and though perfectly obvious has been completely overlooked, I am afraid, and has led to much fallacious thinking and heaped much abuse upon America for not wanting to buy, but rather, and only, to sell and sell and sell.

Let us look at the facts.

Taking the year 1938, a good representative prewar year, 85% of our imports by value were accounted for by only 100 items. 41% of our total imports, for a value of $800,000,000 were duty free. Items on which the duty was nominal, accounted for 32% of our imports for a value of $618,000,000.

Thus, 73% of our imports, again by value, in a normal year are not seriously affected by duty.

So when we talk of increasing our importations by lowering tariffs, we are talking about approximately 30% of our total normal imports.

To double our total imports, means increasing this 30% area six-fold.

We, as a nation, have succeeded willy nilly to World Economic Leadership. The method by which we discharge this obligation will depend in no small measure, upon our willingness to accept world leadership, especially in the spheres of international finance and service. Certain is one thing that we can not go on lending if we are not to be repaid. Unwise international loans enrich neither the one who gives nor the one who receives, and accelerates world misunderstandings that endanger world peace.

Although loans of American money abroad may, at times, be essential to the overall world economy, including our own, they are not a substitute for domestic imports of services as well as goods as providers of dollars; often they delay the solution of problems instead of facilitating it.

Contrary to a deeply-rooted common belief, not less erroneous for being of widespread acceptance, imports are more beneficial to the economy of a nation than exports.

After all, the final purpose of organized industry and commerce is to place at the disposal of man the largest possible amount of needed and desired economic goods. This optimum level in the enjoyment of wealth can be attained solely through imports of foreign commodities and services.

The prosperity of a nation is not measured by its accumulation of precious metals and currencies but by the essentialities and amenities of life available to its people. Exports are of importance inasmuch as they contribute to provide the means for the procurement of both.

Despite wishful expectations, many of our foreign loans, outstanding and planned, may never be refunded, because of the inability of the borrowers to honor their obligations.

It is worth considering if, in some cases, it would not be preferable to extend financial assistance by purchasing abroad a larger amount of commodities of which we could make tangible use, rather than by swelling the account of our receivable foreign assets; especially so when our national resources begin to dwindle.

Some of the foregoing concepts have been consistently followed in our national policy of foreign trade; some others temporarily or permanently obscured.

Organization for Foreign Trade

An now let us consider those requirements of organization necessary for a successful export business, which after all, is my subject.

It may seem trite to say that there must be a full understanding on the part of anyone organizing for export, of all the fundamentals effecting world trade, and a very particular and specialized knowledge of the special branch of export that is under consideration for entering or carrying on.

All too often, the objective or purpose of the organization is not well known or known to but few.

Let me give you by way of example, the objective of the Company I represent. It is

"To obtain as a minimum that share of all markets for the products sold, product by product, territory by territory, to which our capacity in relation to the industry as a whole entitles us, and, to accomplish this participation ratio through the exercise of judgment, so as to insure the maximum continuing return on investment to the corporation."

After one knows what he is trying to do, then, in light of all the facts possible of obtainment, the organizer must follow—and again I don't want to be trite—the following steps in the order given:

First, Analyze; Second, Organize; Third, Deputize; and finally Supervise.

Whether it be organizing for Export or for a Domestic business, the steps are the same, and there are certain keystone principles of Organization which, if the resulting organization is to be sound, require careful adherence.

These are: (1) Leadership; (2) Delegation, and, (3) Function definitions.

Leadership represents authority. It must possess all the authority necessary to exercise its leadership. It must likewise possess all the attributes of intelligence, integrity and capacity in sufficient degree to warrant the authority given to it.

Delegation is the center of all processes in formal organization. In essence, it involves a double responsibility. The one to whom authority is delegated is responsible to his superior for doing the job — but the superior remains responsible for getting the job done.

Function definition is the form in organization that assigns all functions, and is the organizational method through which **leadership** delegates to each subordinate his own specific task.

Functions may be unlimited in number, according to the procedure necessary to attain the given purpose.

Formal correlation of functions is the task of **The Organizer.** His job is to correlate duties as such. Correlation of spirit is the responsibility of **The Leader.** He correlates the people who perform these duties.

These facts show the importance of understanding the formal principles or organization.

But not until there is a general understanding of the Common Purpose can there be that real and horizontal correlation which is the final test of a truly efficient organization.

It is the duty of **Leadership** to attain complete correlation of functions.

Staff Service in organization means the service of advice or counsel, as distinguished from the function of authority or command.

This service has three phases: the informative; the advisory; and the supervisory.

There are two prime necessities in efficient Staff Service, viz;—Coordination and Infiltration.

The term "Coordination" describes the necessary method of sound Staff Procedure but "Infiltration of knowledge" is the ultimate purpose of all Staff Activities.

Staff Service is not alone for the top leader. It comes to him first for he needs it in the making of his own decisions. But the subordinates also need it in the execution of their responsibilities.

It is not alone the leader who has important things to tell his subordinates. These subordinates likewise have important things to tell the leader; things he should know in the exercise of his leadership. And they have important things to tell each other also. This mutuality of things to be made known runs through all relations of superiors, subordinates and equals throughout the organization.

The infiltration of the true service of knowledge cannot be conceived as merely moving from the top — downward. No organization can be truly unified in spirit until it has evolved a similar service moving from the bottom — upward.

Only when all have the right to be heard through an organized machinery for the expression of such right, as a stimulus to its exercise, can there be a truly informed leadership.

To summarize, top management organization planning for successful export business involves the same principles and their careful application as does any other group effort. Since Export involves not only domestic considerations but world considerations also, export business — especially under present and foreseeable future conditions — involves many added complexities requiring an automatic organizational vigilance and intelligence for the detection, interpretation and adaptation of organizational procedure and action, lest these ever-shifting "rules of the game" completely confound and stymie one's efforts.

Foreign Loans

Today, all the world looks to America for credit — for materials — for know-how.

How long will the world sellers' market continue for the United States? How long should it?

We cannot go on selling in endless volume if there is no prospect for a final balance in our international payments.

And this gets down to each organization engaged in Export business, having within its own organization, the means for proper evaluation of the risks involved in doing international business in a topsy-turvy economical, political and social world.

J. W. Goldsbury Co.

MINNEAPOLIS, MINN.—Officers of J. W. Goldsbury Co., 807 Marquette Avenue, are Joseph W. Goldsbury, President and Treasurer; Rena W. Goldsbury, Vice-President, and Joseph C. Goldsbury, Secretary. J. W. and J. C. Goldsbury were both officers of the former J. W. Goldsbury & Co.

Dempster Opens in Columbus

(Special to THE FINANCIAL CHRONICLE)

COLUMBUS, OHIO — Edmund G. Dempster has opened offices at 1418 North Fourth Street to engage in the securities business.

Securities Now in Registration

● INDICATES ADDITIONS SINCE PREVIOUS ISSUE

Acme Electric Corp., Cuba, N. Y.
June 26 filed 132,740 shares ($1 par) common stock. **Underwriters**—Herrick, Waddell & Co., Inc., and First Colony Corp. **Offering**—To be offered publicly at $5 a share. **Proceeds**—Company will receive proceeds from the sale of 68,880 shares and four selling stockholders the proceeds from the sale of 63,860 shares. Company also will receive proceeds from the sale of 20,000 warrants for common stock to underwriters at an aggregate price of $200. Of the net proceeds ($292,940) $50,000 will be used to pay current bank loans; about $20,000 will be used for machinery and equipment, and the remainder for working capital.

Acme-Hamilton Mfg. Corp., Trenton, N. J.
Aug. 29 filed 50,000 shares 5% cumulative preferred stock ($20 par) and 82,000 shares ($1 par) common stock. **Underwriters**—G. L. Ohrstrom & Co. and S. R. Livingstone & Co. **Offering**—Company is offering the 50,000 shares of preferred, while the 82,000 shares of common are being sold for the account of certain stockholders. **Prices**—$20 a share for the preferred, and $11.50 a share for the common. **Proceeds**—Company will apply proceeds to fully discharge secured demand notes, mortgage notes and partial discharge of debenture indebtedness.

Aerovox Corp., Bedford, Mass.
Aug. 22 filed $1,500,000 of 5% sinking fund debentures, due 1961, and 50,000 shares ($1 par) common stock. **Underwriter**—Ames, Emerich & Co., Inc., and Dempsey & Co., Chicago. **Offering**—The debentures will be offered publicly. The common shares will be issuable upon the exercise of stock purchase warrants for purchase of common stock at $2 a share above the bid price of such common on the effective date of the registration. Company will sell warrants for 25,000 common shares to the underwriters at 10 cents a warrant. The remaining warrants will be sold to officers and employees of the company. **Price**—Debentures at 98. **Proceeds**—Company will use $1,025,000 of proceeds of debs. for payment of an indebtedness to Bankers Trust Co., New York. Balance, will be added to working capital. Offering postponed.

Air Express Internat'l Agency, Inc., New York
July 22 filed 125,000 shares of 50-cent par common. **Underwriters**—Newburger & Hano; Gearhart & Co., Inc., and Burnham & Co., all of New York. **Offering**—The shares will be offered publicly at $6 a share. **Proceeds**—Estimated net proceeds of $656,250 will be added to general funds. Temporarily postponed.

American Brake Shoe Co., New York
Aug. 16 filed 199,101 shares (no par) common. **Underwriting**—No underwriting. **Offering**—Shares are offered for subscription to common stockholders of record Sept. 13 in the ratio of one additional share for each four shares held at $35 per share. Rights expire Oct. 21. Unsubscribed shares will be sold to other persons including officers and employees. Price, $35 a share. **Proceeds**—Net proceeds, estimated at $6,915,285, will be used to defray part of the cost of its plant expansion and improvement program.

American Broadcasting Co., Inc., N. Y.
June 27 filed 950,000 shares ($1 par) common stock. **Underwriter**—Dillon, Read & Co. Inc., New York. **Offering**—A maximum of 100,000 shares may be sold by company to persons, firms, or corporations with whom the corporation had network affiliation agreements on March 31. The remainder will be offered publicly. Price by amendment. **Proceeds**—To prepay notes payable to acquire radio station WXYZ, to construct broadcast transmitter for station KGO at San Francisco and for working capital.

American Cladmetals Co., of Pittsburgh
July 8 filed 196,500 units comprising 196,500 shares of voting common stock ($1 par) and 589,500 shares of non-voting common stock ($1 par), each unit consisting of 1 share of voting common and 3 shares of non-voting common. **Underwriters**—None—the company intends to distribute its common stock directly to the public. **Offering**—Price $6 per unit. **Proceeds**—Net proceeds estimated at $1,179,000 will be used to pay a mortgage on plant, pay accounts payable, purchase equipment, for building alterations and working capital.

American Colortype Co., Clifton, N. J.
Aug. 12 filed 30,000 shares ($100 par) cumulative preferred stock. **Underwriter**—White, Weld & Co. Price by amendment. **Proceeds**—Net proceeds initially will be added to general funds, however, the company anticipates it will use the funds for its building and expansion program. Offering date indefinite.

American Limoges China Corp., New York
Sept. 25 filed 75,000 shares of common stock (par $1). **Underwriter**—Riter & Co. **Proceeds**—Stock being sold for account of Harry Bloomberg, President. **Price**—By amendment.

American Locomotive Co., New York
July 18 filed 100,000 shares each of $100 par prior preferred stock and $100 par convertible second preferred stock. **Underwriting**—Union Securities Corp., New York. Price by amendment. **Proceeds**—Net proceeds, with other funds, will be used to redeem $20,000,000 of 7% cumulative preferred stock at $115 a share plus accrued dividends. Indefinitely postponed.

American 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.

American Zinc, Lead & Smelting Co., St. Louis
Sept. 6 filed 336,550 shares common stock (par $1). **Underwriting**—No underwriting. **Offering**—Stock will be offered for subscription to common stockholders of record on Nov. 1 in the ratio of one additional share for each two shares held. The subscription offer will expire on Nov. 21. Unsubscribed shares will be offered for subscription to officers and directors of the company. **Price**—By amendment. **Proceeds**—Working capital.

Ansley Radio Corp., Trenton, N. J.
Aug. 29 filed 70,000 shares of Class A cumulative convertible preferred stock ($5 par) and 70,000 shares of common (50c par) and warrants for 50,000 shares of common stock to be sold to underwriter at 5c per share warrant and exercisable through Oct. 1, 1951 for purchase of common at $1 per share. **Underwriter** — Amos Treat & Co. **Offering**—To the public in units of one share of preferred and one share of common. **Prices**—$7 per unit of one share of preferred and one share of common. **Proceeds**—To retire bank loans of approximately $100,000, to purchase wood-working machinery and for working capital. Temporary postponed.

● **Apple Valley Building & Development Co., Long Beach, Calif.**
Oct. 3 (letter of notification) 30,000 shares ($10 par) Class A preferred and 30,000 shares Class B common to be issued to Newton T. Bass, Virginia W. Bass, B. J. Westlund, Bennett G. Tripp and Joseph A. Ball in the proportion that one share of common be issued for every share of preferred sold to the general public. **Offering**—Price, Class A preferred, $10 a share. No underwriting. To erect a guest ranch.

Arkansas Western Gas Co.
June 5 filed 33,639 shares of common stock (par $5). **Underwriters**—Rauscher, Pierce & Co. Inc., and E. H. Rollins & Sons Inc. **Offering**—Stock will be offered to the public. Price by amendment. Shares are being sold by six stockholders.

Armour and Co., Chicago
July 12 filed 350,000 shares (no par) cumulative first preference stock, Series A; 300,000 shares of convertible second preference stock, Series A, and 1,355,240 shares common stock (par $5). **Underwriter**—Kuhn, Loeb & Co., New York. **Offering**—The 350,000 shares of first preference stock will be offered in exchange to holders of its 532,996 shares of $6 cumulative convertible prior preferred stock at the rate of 1.4 shares of first preference stock for each share of $6 prior preferred. Shares of first preference not issued in exchange will be sold to underwriters. The 300,000 shares of second preference stock will be offered publicly. The 1,355,240 shares of common will be offered for subscription to common stockholders of the company in the ratio of one-third of a new share for each common share held. Unsubscribed shares of common will be purchased by the underwriters. **Price**—Public offering prices by amendment. **Proceeds**—Net proceeds will be used to retire all unexchanged shares of $6 prior stock and to redeem its outstanding 7% preferred stock. Temporarily postponed.

Artcraft Hosiery Co., Philadelphia
Sept. 27 filed 53,648 shares ($25 par) 4½% cumulative convertible preferred and 150,000 shares ($1 par) common. It also covers shares of common reserved for issuance upon conversion of preferred. **Underwriter**—Newburger & Hano, Philadelphia. **Price**—$25.50 a preferred share and $12 a common share. **Proceeds**—Company will receive proceeds from the sale of all of the preferred and 100,00 shares of common. The remaining 50,000 shares of common are being sold by three stockholders. Estimated net proceeds of $2,300,000 will be used by the company to pay off bank notes of about $1,100,000 and to purchase additional machinery and equipment in the amount of $1,200,000.

Beaunit Mills, Inc., New York
Sept. 27 filed 180,000 shares ($2.50 par) common. **Underwriter** — White, Weld & Co., New York. **Price** — By amendment. **Proceeds**—Of the total, 140,000 shares are being sold by St. Regis Paper Co., New York, and the remaining 40,000 shares are being sold by I. Rogosin, President of Beaunit Mills, Inc.

Bendix Helicopter, Inc., New York
Sept. 18 (letter of notification) 20,000 shares of common stock (par 50¢). **Offering**—To be publicly offered at $1.20 per share (estimated market). **Underwriter** — Bond & Goodwin, Inc. will act as broker. Proceeds to selling stockholders.

Berbiglia, Inc., Kansas City, Mo.
Sept. 12 (letter of notification) 41,000 shares of 5% cumulative convertible $6 par preferred. Offering price, $6 a share. **Underwriter**—Estes, Snyder & Co., Topeka, Kans. To pay outstanding indebtedness and expenses and to open five additional stores in Kansas City, Mo. Offering temporarily postponed.

● **Borchardt (E. H.) & Co., Belle Glade, Florida**
Sept. 23 (letter of notification) 27,000 shares Class A stock (par $10) and 27,000 shares of common stock (par $1). **Underwriter**—Blair & Co. **Proceeds**—Working capital.

Black, Sivalls & Bryson, Inc., Kansas City, Mo.
July 29 filed 100,000 shares ($1 par) common stock. **Underwriters**—F. S. Yantis & Co., Inc., and H. M. Byllesby and Co. **Offering**—Shares were sold to the underwriters on July 29, 1946 at $10.70 a share. They will be offered to the public at $12.50 a share. Offering date indefinite.

Blumenthal (Sidney) & Co. Inc., New York
Aug. 30 filed 119,706 shares (no par) common and subscription warrants relating to 30,000 shares thereof. **Underwriting** — None. **Proceeds**—For reimbursement of company's treasury for funds expended in redemption of 3,907 shares of 7% cumulative preferred on April 1, and for funds deposited in trust for redemption on Oct. 1 of remaining preferred shares. Although it was proposed to offer the stock for subscription to stockholders at $10 per share, company on Sept. 20 decided to withhold action at this time.

Boston Store of Chicago, Inc.
Sept. 10 filed 30,000 shares ($50 par) 5% cumulative preferred and 500,000 shares ($1 par) common. **Underwriters**—Paul H. Davis & Co. and Stroud & Co., Inc. **Offering**—Preferred will have non-detachable stock

NEW ISSUE CALENDAR

(Showing probable date of offering)

October 14, 1946

Florida Frozen Fruits Inc.----------------Common
Fownes Brothers & Co Inc.-----------Capital Stock
Leader Enterprises Inc.----Preferred and Common

October 15, 1946

Duluth Missabe & Iron Range RR. (Noon)--Bonds
Dumont Electric Corp.----------------------Common
Northwest Airlines, Inc.-------------------Common
Northwestern Public Service Co.
(11:30 a.m., EST)----------------------------Bonds
Plastic Molded Arts Inc.---------------Pfd. and Com.
Red Rock Bottling Co.----------------------Common
Western Maryland Ry.---------------Eqp. Trust Ctfs.

October 22, 1946

Delaware Lackawanna & Western RR.
(Noon) ---------------------------Equip. Trust Ctfs.

October 28, 1946

Films Inc.-------------------Class A and Common

purchase warrants for purchase of 30,000 shares of common stock of the total common, 375,000 shares will be offered for sale for cash. 30,000 shares are reserved for issuance upon exercise of warrants attached to preferred and 95,000 shares are reserved for issuance upon exercise of outstanding warrants. **Price**—By amendment. **Proceeds**—Net proceeds, together with other funds, will be used to pay the company's 2% subordinated note in the principal amount of $5,268,750 and accrued interest.

Bowman Gum, Inc., Philadelphia

Sept. 27 filed 268,875 shares ($1 par) common. **Underwriter**—Van Alstyne, Noel & Co., New York. **Price**—By amendment. **Proceeds**—Stock is being sold by shareholders who will receive proceeds.

Braunstein (Harry), Inc., Wilmington, Del.

Sept. 25 filed 12,500 shares ($25 par) 4½% cumulative convertible preferred stock and 50,000 shares (20¢ par) common stock. **Underwriter** — C. K. Pistell & Co., Inc., New York. **Price** — $25 a share for preferred and $11 a share for common. **Proceeds**—7,000 preferred shares are being sold by company, the remaining 5,500 preferred shares and all of the common are being sold by present stockholders. Net proceeds to the company, estimated at $147,500, will be used to prepay to the extent possible outstanding $149,300 mortgage liabilities.

Briggs & Stratton Corp., Milwaukee

Aug. 9 filed 76,000 shares (no par) capital stock. **Underwriters**—A. G. Becker & Co., Inc., Chicago. Price by amendment. **Proceeds**—Shares are being sold by stockholders. Temporarily postponed.

Brooklyn (N. Y.) Union Gas Co.

May 3 filed 70,000 shares of cumulative preferred stock ($100 par). **Underwriters**—To be filed by amendment. **Bids Rejected**—Company July 23 rejected two bids received for the stock. Blyth & Co., Inc., and F. S. Moseley & Co. and associates submitted a bid of 100.06 for a 4.30% dividend. Harriman Ripley & Co. and Mellon Securities Corp. bid 100.779 for a 4.40% dividend. Indefinitely postponed.

Brown & Bigelow, St. Paul

July 19 filed 35,000 shares of 4½% ($100 par) cumulative preferred stock and 427,558 shares ($1 par) common stock. **Underwriters**—Reynolds & Co., New York. **Offering**—19,079 preferred shares will be offered to 6% preferred stock on a share for share exchange basis. Shares not issued in exchange plus 15,921 additional will be offered to the public. Of the total common, the company is selling 67,500 shares to underwriters for public offering and 55,177 shares are to be offered in exchange for outstanding capital stock of Consolidated Printing Ink Co., Quality Park Box Co., Inc., and John Beissel Co., which will become subsidiaries. In addition, stockholders of the company are selling 322,521 shares to the underwriters for public offering. **Price**—Preferred $103.50 a share; common $26.50 a share. **Proceeds**—Net proceeds to the company will be used to redeem unexchanged shares of 6% preferred at 110% and for increasing general corporate funds. Offering temporarily postponed.

Brunner Manufacturing Co., Utica, N. Y.

Sept. 13 filed 180,185 shares ($1 par) common. **Underwriters**—George R. Cooley & Co., Inc., Albany, N. Y., and Mohawk Valley Investing Co., Inc., Utica. **Offering**—Of the total, 110,000 shares will be offered publicly and the remaining 70,185 shares will be offered in exchange for 23,395 shares of Class B common of American Gas Machine Co., of Albert Lea, Minn., on the basis of three shares for each Class B share. **Price**—$10.25 a share. **Proceeds**—Net proceeds will be used to redeem the outstanding Class A common shares of American Gas and the outstanding preferred stock of Brunner.

Buffonta Mines Ltd., Toronto, Can.

Sept. 12 filed 1,000,000 shares $1 par (Canadian currency) common. **Underwriting** — George F. Jones Co., Inc., Buffalo, N. Y. **Price**—$1 a share, American currency. The underwriting commission will amount to 20 cents a share. **Proceeds**—For development of gold mining properties.

Burgess-Norton Mfg. Co., Geneva, Ill.

Sept. 23 filed 10,000 shares ($50 par) 5% cumulative preferred and 120,000 shares ($2.50 par) common. **Underwriter**—H. M. Byllesby and Co. (Inc.), Chicago. **Offering**—Of the common, 110,000 shares are being sold by stockholders. The remaining 10,000 shares are reserved for issuance upon the exercise of warrants attached to the preferred. Price by amendment. **Proceeds**—To reimburse treasury for purchase of machinery and equipment at a cost of $98,386 and payment for new building being constructed at estimated cost of $223,700; balance for purchase of additional machine tool equipment.

California Oregon Power Co.

May 24 filed 312,000 shares of common stock (no par). Stock will be sold through competitive bidding. **Underwriters**—Names by amendment. Probable bidders include Blyth & Co., Inc.; The First Boston Corp.; Harriman Ripley & Co. **Offering**—Stock is being sold by Standard Gas and Electric Co., parent, of California. **Bids Rejected**—Standard Gas & Electric Co. rejected June 25 two bids for the purchase of the stock as unsatisfactory. Blyth & Co., Inc., and First Boston Corp. bid of $28.33 a share, and Harriman Ripley & Co. bid of $24.031 a share. Stock will again be put up for sale when market conditions improve.

California-Pacific Utilities Co., San Francisco

Sept. 6 filed $1,670,000 of first mortgage bonds, Series B, due 1971, and 33,610 shares ($20 par) common. **Underwriters**—To be determined by competitive bidding. Probable bidders include Halsey, Stuart & Co., Inc. (bonds only). **Proceeds**—Net proceeds will be used to redeem outstanding 3½% mortgage bonds of Eastern Oregon Light & Power Co., whose electric properties were recently acquired by the company; to pay off short term indebtedness and to reimburse its treasury for previous expenditures.

● **Cameron Aero Engine Corp., New York**

Oct. 2 (letter of notfication) 60,000 shares of common. **Offering**—Price $2 a share. **Underwriter**—R. A. Keppler & Co., Inc., New York. **Proceeds**—To demonstrate the Cameron Engine by flight tests in company-owned plane.

Camfield Mfg. Co., Grand Haven, Mich.

July 29 filed 220,000 shares ($1 par) common stock. **Underwriters**—Gearhart & Co., Inc. **Offering**—Of the shares registered, 100,000 are issued and outstanding and will be sold to the underwriters by three stockholders at $4.50 a share for their own account. The remaining 120,000 shares are being offered by the company. Price $4.50 a share. **Proceeds**—Company's share to pay renegotiation refund in amount of $180,000 to the U. S. Government, and for additional working capital. Offering date indefinite.

Canadian Admiral Corp. Ltd., Toronto

July 8 filed 150,000 shares ($1 par) common stock. **Underwriter**—Dempsey & Co. **Offering**—Stock initially will be offered to common stockholders of Admiral Corp. at $3 a share. **Proceeds**—$75,000 is earmarked for purchase of machinery and equipment, and tools, jigs, dies and fixtures; balance will be available for corporate purposes. Indefinitely delayed.

Carscor Porcupine Gold Mines, Ltd., of Toronto, Ontario

June 24 filed 400,000 shares of common stock. **Underwriter**—Registrant will supply name of an American underwriter by post-effective amendment. **Offering**—To the public at $1 a share in Canadian funds. **Proceeds**—For a variety of purposes in connection with exploration, sinking of shafts, diamond drilling and working capital.

Central Electric & Gas Co., Sioux Falls, S. D.

May 29 filed 35,000 shares of $2 cumulative preferred stock, series A (no par), but with a stated value of $50 a share, and 175,000 shares of common stock (par $1). **Underwriter**—Paine, Webber, Jackson & Curtis, Chicago. **Offering**—The stocks will be offered to the public at prices to be supplied by amendment. **Proceeds**—To pay off $3,000,000 loan from First National Bank Chicago and Harris Trust and Savings Bank, Chicago, balance working capital.

Central Illinois Public Service Co., Springfield, Ill.

Aug. 14 filed 150,000 shares ($100 par) cumulative preferred stock. **Underwriter**—To be determined by competitive bidding. Probable bidders include Dillon, Read & Co., Inc.; Smith, Barney & Co., White, Weld & Co.; Glore, Forgan & Co.; Lehman Brothers and Lazard, Freres & Co. (jointly). **Offering**—New preferred stock will be offered on a share for share exchange basis to holders of its old preferred stock other than the Middle West Corp. which holds 38,564 shares of such stock. If more than 150,000 shares of old preferred stock are deposited for exchange the number of shares to be exchanged will be pro rated. Shares of new preferred not issued in exchange will be sold to underwriters. **Proceeds**—Net proceeds from sale of shares not issued in exchange will be used to redeem old preferred at $110 a share and accrued dividends.

Central & South West Utilities Co.

Aug. 30 filed its ($5 par) capital stock. Company's name is to be changed by post effective amendment to Central & South West Corp. (Del.) Prospectus will be issued in connection with the public invitation for sealed bids for the purchase of a sufficient number of such shares as same will be constituted upon consummation of a proposed merger into the issuer of American Public Service Co., to provide funds for retiring the preference shares of the issuer and American Public Service Co., not exchanged for shares of the merged corporation. Underwriters by amendment. Possible bidders: Glore, Forgan & Co.; Lehman Brothers-Lazard Freres & Co. (jointly); Smith, Barney & Co.-Harriman, Ripley & Co. (jointly); Blyth & Co., Inc., Stone & Webster Securities Corp. and First Boston Corp. (jointly). Price by amendment. **Business**—Public utility holding company.

Central Soya Co., Inc., Fort Wayne, Ind.

Aug. 21 filed 90,000 shares (no par) common. **Underwriters** — Glore Forgan & Co., Chicago. **Offering** — Common shares initially will be offered for subscription to common stockholders at rate of one share for each 7⅓ shares held. Unsubscribed shares will be sold to underwriters. Price by amendment. **Proceeds**—Working capital, etc. Offering indefinitely postponed.

Chase Candy Co., St. Joseph, Mo.

Sept. 12 filed $2,500,000 of 4% sinking fund debentures, due 1961; 100,000 shares ($20 par) 5% convertible cumulative preferred, and 170,000 shares ($1 par) common. **Underwriters** — F. S. Yantis & Co., Inc. and H. M. Byllesby and Co. (Inc.), Chicago, and Herrick Waddell & Co., Inc., New York. **Offering**—Common will be offered for subscription at $10 a share to common stockholders at rate of one share for each two shares held of record on Oct. 19. Shares of common not subscribed for will be offered for sale to officers, directors and employees. **Price**—The debentures will be offered at 100 and the preferred at $20 a share. The common will be offered to stockholders at $10 a share. Pursuant to the common stock subscription rights, F. S. Yantis & Co. will purchase 100,000 shares of the 170,000 shares of common for investment. Any of the remaining 70,000 shares which are not subscribed for by stockholders and officers, directors and employees will be sold to the underwriters. **Proceeds**—Net proceeds, estimated at $5,856,125, will be used to pay the balance of the purchase price, amounting to $5,150,000, for acquisition of the candy manufacturing business operated by Clinton Industries, Inc., as its national candy division with plants in St. Louis, Mo., and Chicago. The balance will be used to redeem its 4% serial debentures and for additional working capital.

Clary Multiplier Corp., Los Angeles

Sept. 3 filed 150,000 shares 5½% cumulative convertible preferred stock (par $5). **Underwriting**—Maxwell, Marshall & Co., Los Angeles. **Price**—$5.25 a share. **Proceeds**—Net proceeds, estimated at $650,000, will be used to repay a $90,000 bank loan, to construct a factory and office building at San Gabriel, Calif., at a cost of about

(Continued on page 1838)

(Continued from page 1837)
$250,000, and to purchase additional equipment, estimated at $250,000. The balance will be added to working capital. Offering temporarily postponed.

Climax Industries, Inc., Chicago
Aug. 28 filed 150,000 shares 5% convertible cumulative preferred ($10 par) and 250,000 shares ($1 par) outstanding common stock. **Underwriter**—Brailsford & Co. **Offering**— company is offering the preferred and General Finance Corp., issuer's sole stockholder, is offering the common for its own account. Prices by amendment. Proceeds of preferred to pay company's indebtedness to General Finance Corp., purchase equipment and real estate and for working capital. Indefinitely postponed.

● **Coast Transportation Co., Inc., New Orleans, La.**
Oct. 4 (letter of notification) 27,900 shares ($10 par) capital stock. **Offering** — Price $10 a share. **Underwriter**—R. S. Hecht & Co., and Howard, Labouisse, Friedrichs & Co., New Orleans. **Proceeds**—For purchase of six barges and for additional working capital.

Colonial Sand & Stone Co., Inc., N. Y.
August 15 filed 300,000 shares ($1 par) common stock. **Underwriters**—Emanuel, Deetjen & Co., New York. Price by amendment. **Proceeds**—Company will receive proceeds from the sale of 150,000 shares and Generoso Pope, President of company, who is selling the remaining 150,000 shares will receive proceeds from these shares. The company will use its proceeds for payment of mortgage notes, open account indebtedness and for purchase of additional equipment. Any balance will be added to working capital. Indefinitely postponed.

Colorado Milling & Elevator Co., Denver, Colo.
Aug. 20 filed 70,000 shares ($50 par) cumulative convertible preferred stock. **Underwriter**—Union Securities Corp., New York. Price by amendment. **Proceeds**—Prior to the proposed issue of preferred stock, the company plans to call its $3 cumulative convertible preferred stock for redemption at $55 a share plus accrued dividends. Funds for the redemption will be supplied by a short term bank loan. Proceeds from the sale of preferred, together with other funds, will be used to repay the bank loan. Indefinitely postponed.

Columbia Aircraft Products Inc., Somerville, N. J.
June 26 filed 150,000 shares ($4 par) 30c cumulative convertible preferred stock, convertible into common stock in the ratio initially of 1½ shares of common for each share of preferred. **Underwriters**—Floyd D. Cerf Co., Inc., Chicago. **Offering**—Company offered 59,585⅓ shares for subscription to present common stockholders of record Aug. 6 at $4.50 a share in the ratio of one share of preferred for each share of common held. Rights expired Aug. 20. The offering to common stockholders excluded the two principal stockholders who waived their rights to subscribe. The remaining 90,414⅔ shares and shares not subscribed to by common stockholders will be offered to the public through underwriters. **Price**—$5 a share. **Proceeds**—Approximately $55,000 for payment of Federal taxes; $250,000 for payment of a loan; $50,000 as a loan to Palmer Brothers Engines, Inc., a subsidiary, balance working capital.

Commonwealth Aviation Corp., New York
June 28, 1946 filed 150,000 shares ($10 par) 4½% cumulative convertible preferred stock and 300,000 shares ($1 par) common stock. **Underwriters**—To be supplied by amendment. **Price**—$12 a share of preferred and $7 a share of common. **Proceeds**—Estimated net proceeds of $3,420,000 will be used for working capital.

Commonwealth Telephone Co., Madison, Wis.
Sept. 23 filed 16,071 shares ($100 par) $4 cumulative preferred. **Underwriters** — Paine, Webber, Jackson & Curtis and Stone & Webster Securities Corp. **Offering**—Shares will be offered for exchange for $5 cumulative preferred, on a share for share basis, plus cash adjustment. Shares not exchanged will be sold to underwriters. Price by amendment. **Proceeds**—To redeem at $110 a share, plus divs., all unexchanged old shares.

Consolidated Hotels, Inc., Los Angeles
Aug. 9 filed 97,363 shares ($25 par) 4½% convertible preferred stock and 150,000 shares (50c par) common. **Underwriter**—Lester & Co., Los Angeles. **Price**—$25 a share of preferred and $9 a share of common. **Proceeds**—Of the total, the company will receive proceeds from the sale of 851 shares of preferred. The remaining shares of preferred and all of the common are being sold by Ben Weingart, President and director. Company will add the proceeds to working capital.

Consumers Power Co., Jackson, Mich.
Aug. 9 filed an unspecified number of shares (no par) common stock. **Underwriters**—To be determined by competitive bidding. Probable bidders include Morgan Stanley & Co.; Lehman Brothers; Shields & Co.; Harriman Ripley & Co. and The First Boston Corp. (jointly). Price by amendment. **Sale Postponed**—The company on Sept 19 postponed indefinitely the sale of the stock. Bids were advertised for Sept. 24.

Continental Motors Corp., Muskegon, Mich.
July 8 filed 250,000 shares 4¼% cumulative convertible preferred stock, Series A ($50 par). **Underwriters**—Van Alstyne, Noel & Co. **Offering**—Price by amendment. **Proceeds**—For rearrangement and expansion of the company's manufacturing plants, acquisition of additional tools and facilities, and for additional working capital requirements. Offering temporarily postponed.

Continental-United Industries Co., Inc.
Aug. 2 filed 150,000 shares ($1 par) common. **Underwriters**—Aronson, Hall & Co. Price $8.25 per share. **Proceeds**—To repay demand loans and for general funds. (Originally company filed for 80,000 preferred shares par $25 and 350,000 common shares.)

Cooper Tire & Rubber Co., Findlay, Ohio
July 17 filed 60,000 shares ($25 par) 4½% cumulative convertible preferred. **Underwriters**—Otis & Co. and Prescott & Co., Inc. **Offering**—To the public. **Price**—$25 a share. **Proceeds**—Estimated net proceeds of $1,356,200 will be used to redeem its outstanding 4% debentures, due 1967, to pay certain debts and for additional equipment, manufacturing space and working capital. Offering date indefinite.

Copco Steel & Engineering Co., Detroit
Aug. 19 filed 115,000 shares ($1 par) common. **Underwriter**—E. H. Rollins & Son, Inc., New York. Price by amendment. **Proceeds**—Of the shares being offered company is selling 100,000 shares and 15,000 shares are being sold by a stockholder. The company will use its proceeds to provide additional factory space and purchase machinery and equipment and to construct a new office building. The balance will be added to working capital. Offering date indefinite.

Crawford Clothes, Inc., L. I. City, N. Y.
Aug. 9 filed 300,000 shares ($5 par) common stock. **Underwriters**—First Boston Corp., New York. Price by amendment. **Proceeds**—Go to Joseph Levy, President, selling stockholders. Offering date indefinite.

Cyprus Mines, Ltd., Montreal, Canada
May 31 filed 500,000 shares of common stock (par $1). **Underwriters**—Sabiston-Hughes, Ltd., Toronto. **Offering**—Shares will be offered to the public at 75 cents a share. **Proceeds**—Net proceeds, estimated at $300,000, will be used for mining operations. **Business** — Exploring for ore.

Danly Machine Specialties, Inc., Cicero, Ill.
July 26 filed 62,000 shares ($25 par) 5% cumulative convertible preferred stock and 71,950 shares (par $2) common stock 40,000 by company and 31,950 by certain stockholders. **Underwriters**—Paul H. Davis & Co., and Shillinglaw, Bolger & Co., Chicago. Price by amendment. **Proceeds**—Company will use proceeds, together with a $1,000,000 bank loan, to purchase machinery, buildings and to retire bank indebtedness. Temporarily postponed.

Delta Chenille Co., Inc., Jackson, Miss.
Oct. 2 filed 300,000 shares (20¢ par) common. **Underwriters**—Names by amendment. Price, $8 a share. **Proceeds**—Of total, company is selling 150,000 shares and remaining 150,000 shares are being sold by Apponaug Manufacturing Co., Inc. Principal stockholder estimated net proceeds to company of $1,007,913 will be added to general funds to be applied for corporate purpose. Company anticipates expenditures of $300,000 in 1946 and $300,000 in 1947 for equipping and absorbing costs of starting operations of four plants, two of which already have been contracted for. The balance will be added to working capital.

Derby Oil Co., Wichita, Kans.
July 19 filed 131,517.3 shares ($8 par) common stock. **Underwriting**—H. M. Byllesby and Co., Inc., Chicago, and Nelson Douglass & Co., Los Angeles. Price by amendment. **Proceeds**—Part of the estimated net proceeds will be used to pay a bank loan. The remainder, with other funds, will be used to expand a drilling and exploration program. Indefinitely postponed.

Detroit Typesetting Co., Detroit, Mich.
Sept. 25 filed 70,920 shares ($1 par) common. **Underwriter** — C. G. McDonald & Co., Detroit. **Price** — $5.50 a share. **Proceeds** — Stock is being sold by six shareholders who will receive proceeds.

Dictaphone Corp., New York
July 25 filed 65,347 shares (no par) common stock. **Underwriter**—Merrill Lynch, Pierce, Fenner & Beane, New York. **Offering**—Stock will be offered to stockholders at rate of one-half share for each share held. Unsubscribed shares will be sold to underwriters. Price by amendment. **Proceeds**—To be added to general funds. Temporarily postponed.

Dobbs Houses, Inc., Memphis, Tenn.
Sept. 27 filed 75,000 shares ($1 par) common. **Underwriter**—Emanuel, Deetjen & Co., New York. **Price**—By amendment. **Proceeds**—Net proceeds will be used for expansion of business consisting of airline catering and restaurant and coffee shop operations.

Drayer-Hanson, Inc., Los Angeles
Aug. 12 filed 80,529 shares ($1 par) class A stock, convertible into common stock (par $1). **Underwriters**—Maxwell, Marshall & Co., Los Angeles. **Price**—To public $10.25 a share. **Proceeds**—Net proceeds, estimated at $694,761, will be used to pay off loans and accounts payable. Offering temporarily postponed.

Dumont Electric Corp., New York (10/15-16)
Aug. 29 filed 94,000 shares of common stock (par 10c). **Underwriter** — First Colony Corp. **Offering** — 25,000 shares being offered by Dumont Electric Corp., and 69,000 shares by Dumont Electric Co., a limited partnership. Price by amendment. **Proceeds**—Net proceeds from the sale of the company's 25,000 shares will be used for general corporate purposes. Offering temporarily postponed.

El Paso (Tex.) Electric Co.
Sept. 27 filed $6,000,000 first mortgage bonds, due 1976. **Underwriter**—By competitive bidding. Probable bidders include Stone & Webster Securities Corp.; Halsey, Stuart & Co. Inc. **Proceeds**—Net proceeds together with general funds, will be applied to the redemption of its $6,500,000 of first mortgage bonds, Series A, 3¼%, due 1970, at 108.

Electronic Laboratories, Inc., Indianapolis, Ind.
July 29 filed 140,000 shares ($1 par) common stock, of which 40,000 shares are being sold by two stockholders. **Underwriters**—By amendment. May be placed privately. Price by amendment. **Proceeds**—From sale of company's 100,000 shares for purchase of inventory, payrolls, and working capital.

Empire Millwork Corp., New York
Aug. 28 filed 50,000 shares of $1.25 cumulative convertible preferred stock, (par $25) and 150,000 shares of common stock (par $1). **Underwriters**—Van Alstyne, Noel & Co. **Proceeds**—Corporation will receive the proceeds from the issuance of 50,000 shares of the common stock which will be used to increase productive capacity, add new lines of products and expand the business. The remaining 100,000 shares of common stock and the preferred shares will be sold by present stockholders. Offering temporarily postponed.

Engineers Waterworks Corp., Harrisburg, Pa.
June 24 (letter of notification) $275,000 4% debentures due 1971. **Underwriters**—C. C. Collings & Co., and Stroud & Co., Inc., Philadelphia. Price, $101. **Proceeds** for purchase of additional water properties or their securities and for other corporate purposes.

Ero Manufacturing Co., Chicago
Sept. 5 filed 105,000 shares common stock (par $1). **Underwriter**—Straus & Blosser, Chicago. **Price**—$11.50 a share. **Proceeds** — Shares are being sold by stockholders.

Farquhar (A. B.) Co., York, Pa.
Sept. 26 filed 30,000 shares ($25 par) cumulative convertible preferred; 45,000 shares ($5 par) common; and an unspecified number of common shares to permit conversion of the preferred. **Underwriter**—Stroud & Co., Inc., Philadelphia. **Price**—By amendment. **Proceeds** — Proceeds will be used to redeem $355,350 4½% sinking fund mortgage bonds, due Aug. 1, 1957, to pay off certain contracts and chattel mortgages of $72,000 and $800,000 to reduce principal on outstanding bank loans.

Fashion Frocks, Inc.
July 24 filed 200,000 shares ($1 par) common stock. **Underwriter**—Van Alstyne, Noel & Co. **Offering**—Offering does not constitute new financing but is a sale of currently outstanding shares owned by members of the Meyers family, owner of all outstanding stock. After giving effect to the sale and assuming exercise of certain warrants and an option, the Meyers family will retain ownership of approximately 58% of the common stock. Offering temporarily postponed.

Felt & Tarrant Manufacturing Co.
Sept. 25 filed 251,340 shares of common stock (par $5). **Underwriters** — Lee Higginson Corp. and Kidder, Peabody & Co. **Offering** — Shares are being sold by shareholders after consummation of proposed changes in company's capitalization and the merging into the company of Comptometer Co. Price by amendment.

Fiduciary Management, Inc., Jersey City, N. J.
Sept. 27 filed 867,420 shares ($25 par) common. **Underwriter**—No underwriting. **Offering**—Stock will be offered for subscription to common stockholders on the basis of four additional shares for each one share held. **Price**—$3 a share. **Proceeds**—To increase capital so company may expand operations in the field of development and reorganization financing.

Films Inc., New York (10/28-31)
June 25, filed 100,000 shares ($5 par) class A stock and 300,000 shares (10 cent par) common stock, of which 200,000 shares reserved for conversion of class A. Each share of class A stock is initially convertible into 2 shares of common stock. **Underwriters**—Herrick, Waddell & Co., Inc., New York. **Offering**—To be offered publicly at $8.10 a unit consisting of one share of class A stock and one share of common stock. **Proceeds**—$201,000 for retirement of 2,010 shares ($100 par) preferred stock at $100 a share; remaining proceeds, together with other funds, will be used for production of educational films.

Florida Frozen Fruits, Inc. (10/14-15)
Sept. 26 (letter of notification) 75,000 shares ($1 par) common. Offering price, $3.75 a share. **Underwriters**—Willis E. Burnside & Co., New York, and Florida Securities Co., St. Petersburg, Fla. Proceeds for purchase of land, buildings, machinery and equipment, repayment of loan and other expenses.

Food Fair Stores, Inc., Philadelphia
Aug. 5 filed 60,000 shares ($15 par) cumulative preferred stock. **Underwriters**—Eastman, Dillon & Co. Price by amendment. **Proceeds**—To be used to redeem 15-year 3½% sinking fund debentures, due 1959; and $2.50 cumulative preferred at $53 a share. Balance will be added to working capital. Temporarily postponed.

Foreman Fabrics Corp., New York
July 29 filed 110,000 shares ($1 par) common stock, all outstanding. **Underwriters**—Cohu & Torrey. Price by amendment. Offering date indefinite.

Foster & Kleiser Co., San Francisco
July 29 filed 100,000 shares of $1.25 cumulative convertible preferred stock (par $25). **Underwriter**—Blyth & Co., Inc. **Offering**—Underwriters are making exchange offer to holders of Class A preferred on share for share basis plus a cash adjustment. **Proceeds**—Approximately $1,060,950 for redemption of class A preferred; balance for expansion, working capital, etc. Dividend rate and price by amendment. Offering temporarily postponed.

Fownes Brothers & Co., Inc., N. Y. (10/14-17)
Aug. 6 filed 100,000 shares ($1 par) capital stock and warrants for 30,000 shares of capital stock to be sold to underwriter at 10c per share warrant and 5,000 shares of capital stock to be purchased by Milton Gluckman at $9.50 per share for investment. **Underwriter** — Van Alstyne, Noel & Co., New York. **Proceeds**—Shares are being sold by Ivens Sherr, President and A. I. Sherr, Executive Vice-President, who will receive proceeds. Offering temporarily postponed.

Fresh Dry Foods, Inc., Columbia, S. C.
Aug. 30 filed 450,000 shares (10¢ par) common. **Underwriter**—Newkirk & Banks, Inc. **Offering**—Of the total company is selling 350,000 shares and two stockholders, Roland E. Fulmer and Louis H. Newkirk, Jr., are selling the remaining 100,000 shares. **Price**—$6 a share. **Proceeds**—For purchase of sweet potatoes, plant expansion, additional storage facilities, research and development work and working capital.

General Bronze Corp., L. I. City
July 26 filed 115,000 shares of cumulative convertible preferred stock ($25 par). **Underwriters**—W. C. Langley & Co. and Aronson, Hall & Co. Price by amendment. **Proceeds**—To pay cost of acquisition, construction and equipment of new plant, and for working capital. Indefinitely postponed.

Glen Industries Inc., Milwaukee, Wis.
July 31 filed 50,000 shares of $1.25 cumulative convertible preferred stock series A ($20 par) and 150,000 shares (10c par) common, all issued and outstanding and being sold by eight selling stockholders. **Underwriters**—Van Alstyne Noel & Co. Price by amendment. **Proceeds**—To selling stockholders. Offering temporarily postponed.

Glencair Mining Co. Ltd., Toronto, Can.
Oct. 2 filed 300,000 shares ($1 par) stock. **Underwriter**—Mark Daniels & Co., Toronto. **Price**—40 cents a share (Canadian Funds). **Proceeds**—For mine development.

Glensder Textile Corp., New York
Aug. 28 filed 355,000 shares ($1 par) common, of which 55,000 shares are reserved for issuance upon the exercise of stock purchase warrants. **Underwriter** — Van Alstyne, Noel & Co. **Offering**—The 300,000 shares are issued and outstanding and being sold for the account of certain stockholders. Company has also issued 55,000 stock purchase warrants to the selling stockholders at 10 cents a share entitling them to purchase up to Aug. 1, 1949, common stock of the company at $11 a share. Price by amendment. Offering temporarily postponed.

Goldring Inc., New York
Sept. 27 filed 210,000 shares (10¢ par) common. **Underwriter**—Merrill Lynch, Pierce, Fenner & Beane, New York. **Price**—By amendment. **Proceeds**—Company is selling 120,000 shares and 90,000 shares are being sold by shareholders. Company will use proceeds for expansion and modernization work, establishment of new retail departments and to replenish working capital.

Grand Canyon-Boulder Dam Tours, Inc., Boulder City, Nev.
Sept. 3 filed 636,500 shares ($5 par) capital stock. **Underwriting**—There will be no underwriting but Everett N. Crosby, President and James Manoil, Treasurer, will act as selling agents. **Offering**—Of the total 500,000 shares will be offered to the public and the remaining 136,500 shares will be reserved for issuance partly in payment of an indebtedness. Partly as a commission to the selling agents and partly on exercise of options. **Price**—$5 a share. **Proceeds**—For refinancing of company and for working capital and funds for development and construction program.

Griggs, Cooper & Co., St. Paul, Minn.
Sept. 3 (letter of notification) 12,000 shares ($1 par) common. **Underwriters**—Kalman & Co., Inc., St. Paul. **Price**—$25 a share. **Proceeds** — For improvement and modernization program. Offering indefinitely postponed.

Grolier Society, Inc., New York
July 29 filed 18,500 shares at $4.25 cumulative preferred stock ($100 par), with non-detachable common stock purchase warrants entitling registered holders of shares of the $4.25 preferred to purchase at any time 64,750 shares of common stock at $16 a share at the ratio of 3½ common shares for each preferred share held; and 120,000 shares of $1 par common stock. **Underwriters**—H. M. Byllesby and Co., Inc. **Offering**—Underwriters to purchase from the company 18,500 shares of preferred and 20,000 shares of common; and from Fred P. Murphy and J. C. Graham, Jr., 100,000 shares of issued and outstanding common. Prices, preferred $100 a share; common $14 a share. **Proceeds**—To retire $6 cumulative preferred, pay notes, discharge a loan. Offering temporarily postponed.

Gulf Atlantic Transport'n Co., Jacksonville, Fla.
Jan. 17 filed 270,000 shares of common stock (par $1). **Underwriters**—Blair & Co. **Offering**—Stock is being offered to present shareholders at $3 per share. Holders of approximately 200,000 shares have agreed to waive their preemptive rights. Offering date indefinite.

Hammond Instrument Co., Chicago
Aug. 8 filed 80,000 shares ($1 par) common. **Underwriter:** Paul H. Davies & Co., Chicago. Price by amendment. **Proceeds**—Net proceeds will be used to redeem its outstanding 6% cumulative preferred stock at an estimated cost of $213,258, exclusive of accrued dividends. It also will use approximately $402,000 toward the purchase of a manufacturing plant in Chicago; balance for working capital. Offering temporarily postponed.

Hartfield Stores, Inc., Los Angeles
June 27 filed 100,000 shares ($1 par) common stock. **Underwriters**—Van Alstyne, Noel & Co., New York, and Johnston, Lemon & Co., Washington, D. C. **Offering**—To be offered to the public at $8 a share. **Proceeds**—Company is selling 60,000 shares and stockholders are selling 40,000 shares. The company will use its proceeds to pay the costs of opening additional stores and to expand merchandise in its existing stores. Offering temporarily postponed.

Hayes Manufacturing Corp., Gr. Rapids, Mich.
Feb. 27 filed 185,000 shares of common stock ($2 par). Shares are being sold by certain stockholders. Stock acquired by selling stockholders in exchange for 432,000 shares of common stock (par $3) of American Engineering Co. **Underwriter**—By amendment. **Offering**—Price by amendment.

• **Hell, Inc., Las Vegas, Nev.**
Oct. 2 (letter of notification) 1,015 shares of common ($10 par). **Offering**—Price $10 a share. No underwriting. To build an amusement resort in the form of an old Western city which will include restaurants, bars, cafes, gambling halls, beauty parlors, etc., all of which are to be leased to individuals.

Holt (Henry) & Co., Inc., New York
June 28, 1946 filed 20,000 shares of 4½% ($25 par) cumulative convertible preferred stock and 33,884 shares ($1 par) common stock. **Undrewriters**—Otis & Co., Cleveland, Ohio. **Offering**—Company is selling the preferred shares and stockholders are selling the common shares. **Price**—$25 a share of preferred. Price for the common by amendment. **Proceeds**—Net proceeds will be added to general funds. Offering date indefinite.

Illinois Power Co., Decatur, Ill.
June 17, filed 200,000 shares ($50 par) cumulative preferred stock and 966,870 shares (no par) common stock. **Underwriters**—By competitive bidding. Probable bidders include Blyth & Co., Inc. and Mellon Securities Corp. (jointly) and Morgan Stanley & Co. and W. E. Hutton & Co. (jointly). **Proceeds**—Net proceeds from the sale of preferred will be used to reimburse the company's treasury for construction expenditures. Net proceeds from the sale of common will be applied for redemption of 5% cumulative convertible preferred stock not converted into common prior to the redemption date. The balance will be added to treasury funds. Company has asked the SEC to defer action on its financing program because of present market conditions.

International Dress Co., Inc., New York
Aug. 28 filed 140,000 shares of common stock (par $1). **Underwriter**—Otis & Co. **Offering**—Price $10 per share. **Proceeds**—Selling stockholders will receive proceeds. Offering date indefinite.

• **Jacobs (Irvin) & Co., Chicago**
Sept. 30 (letter of notification) 2,500 shares of $4.50 cumulative preferred. The company also intends to offer an aggregate of 400 shares of common to a few key employees. **Offering**—Price of preferred, $100 a share. No underwriting. To increasing working capital.

Jensen Manufacturing Co., Chicago
July 24 filed 148,176 shares ($1 par) common stock. **Underwriter**—Doyle, O'Connor & Co., Chicago. **Price**, $8.87½ a share. **Proceeds**—Shares are being sold by two stockholders. Offering temporarily postponed.

Kalamazoo (Mich.) Vegetable Parchment Co.
Sept. 3 filed 100,000 shares ($10 par) common stock. **Underwriting** — No underwriting. **Offering** — For subscription to common stockholders in the ratio of one share for each five shares held. **Price**—$15 a share. **Proceeds**—Proceeds, estimated at $1,500,000, will be used to retire a $500,000 short-term bank loan, to make loans to The KVP Co. Ltd., a subsidiary, and to increase working capital.

• **Kaman Aircraft Corp., West Hartford, Conn.**
Oct. 7 (letter of notification) 20,000 shares (no par) class A common and 10,000 shares (no par) class B common. Offering price, $10 a share. No underwriting. To pay operating and research expenses in connection with the development of aircraft of all types.

Kane County Title Co., Geneva, Ill.
Sept. 25 (letter of notification) 4,000 shares of common. **Offering**—To be offered to stockholders of record Oct. 4 for subscription at $30 a share at the rate of one share for each two shares held. Subscription rights terminate Nov. 3. Any unsubscribed shares will be purchased by Chicago Title & Trust Co., a stockholder. No underwriting. For expansion of building and plant facilities.

• **Kenmar Manufacturing Co., East Palestine, O.**
Oct. 2 (letter of notification) 5,000 shares (no par) common. **Offering**—Price $10 a share. No underwriting. For expansion and improvement of manufacturing facilities or for other corporate purposes.

Lake State Products, Inc., Jackson, Mich.
Aug. 27 (letter of notification) 100,000 shares ($1 par) common for benefit of issuer. **Underwriter**—Keane & Co., Detroit. **Offering**—Price $2.50 a share. Proceeds for working capital to enable issuer to produce its product, an automatic dishwashing machine in commercial quantities.

• **Langevin Co. Inc., New York**
Oct. 3 (letter of notification) 39,000 shares ($4 par) convertible Class A stock and 19,500 shares (10c par) common on behalf of the company and 19,000 shares of ($4 par) Class A and 9,500 shares of the common on behalf of Carl C. Langevin, President of the Company. **Offering**—Price $5.125 a unit consisting of one share of Class A stock and one-half share of common. 3,000 units are reserved for sale to certain officers and employees of the company. **Underwriter**—Hill, Thompson & Co., Inc., New York. **Proceeds**—For payment of indebtedness and to increase working capital.

Leader Enterprises, Inc., New York (10/14-15)
Sept. 26 (letter of notification) 150,000 shares of (10¢ par) common and 57,000 shares ($5 par) 6% cumulative convertible preferred, Series A. **Price**—10 cents a common share and $5 a preferred share. **Underwriter**—Gearhart & Co., Inc., New York. **Proceeds**—To replace working capital used to promote new publication called Fashion Trades and to provide additional working capital.

Lime Cola Co., Inc., Montgomery
June 28, 1946 filed 225,000 shares (10 cent par) common stock. **Underwriters**—Newburger and Hano, Philadelphia, and Gearhart & Co., Inc., New York. **Price**—$5.50 a share. **Proceeds**—Working capital, etc. Offering temporarily postponed.

Macco Corp., Clearwater, Calif.
Sept. 25 filed 100,000 shares ($1 par) capital stock. **Underwriter** — Dean Witter & Co., Los Angeles. **Price**—By amendment. **Proceeds** — To pay off outstanding bank loans.

Mada Yellowknife Gold Mines, Ltd., Toronto
June 7 filed 250,000 shares of capital stock (par 40c). **Underwriters** — Names to be supplied by amendment. **Offering**—Stock will be offered publicly in the U. S. at 40c a share (Canadian money). **Proceeds**—Proceeds, estimated at $75,000, will be used in operation of the company. **Business**—Exploring and developing gold mining properties.

Maine Public Service Co., Preque Isle, Me.
June 25 filed 150,000 shares ($10 par) capital stock. **Underwriters**—To be determined through competitive bidding. Probable bidders include The First Boston Corp.; Kidder, Peabody & Co., and Blyth & Co., Inc. (jointly); Harriman Ripley & Co; Coffin & Burr and Merrill Lynch, Pierce, Fenner & Beane. **Proceeds**—The shares are being sold by Consolidated Electric and Gas Co., parent of Maine Public Service, in compliance with geographic integration provisions of the Public Utility Holding Company Act.

May McEwen Kaiser Co., Burlington, N. C.
Aug. 22 filed 175,418 shares ($1 par) common stock. **Underwriters**—Goldman, Sachs & Co., and Hemphill, Noyes & Co. **Price**—By amendment. **Proceeds**—Net proceeds go to 11 shareholders who are selling the stock being registered. Offering temporarily postponed.

Mica Mountain Mines, Inc., Salt Lake City
Sept. 11 (letter of notification) 171,000 shares of common for company, and 22,937 shares to be reoffered in the alternative for an oversale of offering covered by letter of notification filed Jan. 2, 1946. Offering price, 171,000 shares — 25 cents each; 22,937 shares — 20 cents each. Underwriting, for the 171,000 shares only—Howard R. Clinger and O. M. Lyman, both of Salt Lake City. To finance operations until production returns begin.

Michigan Gas & Elec. Co., Ashland, Wis.
June 24 filed $3,500,000 of series A first mortgage bonds, due 1976; 14,000 shares ($100 par) cumulative preferred stock and 120,000 shares ($10 par) common stock. **Underwriters**—To be determined by 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. **Offering**—New preferred will be offered on a share for share exchange basis to holders of its outstanding 7% prior lien, $6 no-par prior lien, 6% preferred and $6 (no par) preferred. Of the common stock being registered, company is selling 40,000 shares, Middle West is selling 57,226 shares and Halsey, Stuart & Co. Inc., New York, is selling 22,774 shares. **Proceeds**—Michigan will use net proceeds from bonds to redeem $3,500,000 3¾% series A first mortgage bonds, due 1972, at 106.75 and interest. Net proceeds from sale of common and from shares of new preferred not issued in exchange will be used to redeem $375,000 3½% serial debentures, due 1951, at 101.2 and interest. It also will redeem at 105 and accrued dividends all unexchanged shares of prior lien and preferred stocks.

(Continued on page 1840)

(Continued from page 1839)

Michigan Steel Casting Co., Detroit
June 27 filed 100,000 shares ($1 par) common stock. **Underwriters**—Cray, McFawn & Co., Detroit. **Offering**—To be offered publicly at $8.25 a share. **Proceeds**—Purchase additional facilities, expansion, etc. Offering indefinitely postponed.

Mississippi Fire, Casualty & Surety Corp.
August 19 (letter of notification) 14,000 shares ($10 par) common stock, offering price $20 a share. **Underwriter**—Clany M. Seay, Jackson, Miss. will undertake to obtain signatures authorizing subscriptions for the stock to create capital and surplus for operation of business. Company is to be organized in Mississippi.

Morrison-Knudsen Co., Inc., Boise, Idaho
July 22 filed 249,550 shares ($10 par) common and 70,000 shares of ($50 par) 4½% cumulative convertible preferred. **Underwriter**—Blyth & Co., Inc., and Wegener & Daly, Inc. **Proceeds**—Selling stockholders are offering 149,550 shares of the common and will receive proceeds from these shares. The company's proceeds, together with funds to be provided from the sale of $2,000,000 of 3½% debentures, due 1961, will be used to retire its certificates of indebtedness, outstanding preferred stock and a portion of its bank loans. It also will use the funds for investment in preferred stocks of subsidiaries. **Price**—Preferred, $50 per share; common, $16 per share. Offering temporarily postponed.

Mountain States Power Co.
June 6 filed 140,614 shares of common stock (no par). **Underwriters**—To be determined by competitive bidding. Probable bidders include Blyth & Co., Inc.; Kuhn, Loeb & Co. and Smith Barney & Co. (jointly); Harriman, Ripley & Co.; The First Boston Corp. **Offering**—Shares, are owned by Standard Gas & Electric Co. and constitute 56.39% of the company's outstanding common. **Sale Postponed**—Standard Gas & Electric Co. asked for bids for the purchase of the stock on Sept. 4, but the sale has been temporarily postponed.

Muehlebach (George) Brewing Co., Kansas City, Mo.
Sept. 25 filed 41,327 shares ($25 par) 5% cumul. participating preferred and 40,000 shares ($1 par) common. **Underwriters** — Headed by Stern Brothers & Co., Kansas City. **Offering** — Preferred and 20,000 shares of common will be offered publicly. Remaining 20,000 shares common will be offered to officers and key employees at $4.75 each. **Price**—Preferred $25 per share and common $5.75 per share. **Proceeds**—Of shares offered to public. 6,500 share of preferred and 20,000 shares of common are being sold by the company. **Proceeds**—Proceeds together with other funds, will be used to pay off $181,909 balance of note held by Schroder Trust Co., New York; to finance a proposed expansion program and to increase working capital.

Murphy (G. C.) Co., McKeesport, Pa.
June 13 filed 250,000 shares of common stock (par $1). **Underwriter**—Smith, Barney & Co. Price by amendment. **Proceeds**—Redemption of outstanding 4¾% preferred stock at $109 a share plus dividends. Indefinitely postponed.

National Alfalfa Dehydrating & Milling Co., Lamar, Colo.
June 28 filed 28,960 shares of 4½% cumulative preferred stock ($100 par), 250,000 shares of common stock ($1 par) and warrants for 28,960 common shares (attached to preferred stock). **Underwriters**—Stone & Webster Securities Corp., and Bosworth, Chanute, Loughridge & Co. Price by amendment. **Proceeds**—Shares are outstanding and are being sold by stockholders. Temporarily postponed.

National Aluminate Corp., Chicago
Sept. 27 filed an unspecified number ($2.50 par) common shares. **Underwriters**—First Boston Corp., New York, and Lee Higginson Corp., Chicago. **Price**—By amendment. **Proceeds**—The stock is issued and outstanding and is being sold by shareholders. Names of the selling stockholders and the number of shares to be sold by each will be supplied by amendment.

• **National Gas & Oil Corp., Colorado Springs, Colo.**
Oct. 2 (letter of notification) 82,000 shares ($1 par) common. **Offering**—Price $1 a share. No underwriting. To purchase a ⅞ interest in land located in La Flore County, Okla., and in drilling five wells to determine existence of gas and oil in commercial quantities.

National Manufacture and Stores Corp., Atlanta
June 12 (letter of notification) 8,500 shares of common stock. Offering price, $35 a share. **Underwriters**—Clement A. Evans & Co., Inc. **Proceeds**—For redemption of outstanding $2.50 class A non-cumulative stock. Postponed indefinitely.

• **National Mines & Metals Corp., Seattle, Wash.**
Oct. 3 (letter of notification) 2,500 production debentures and 50,000 shares (5c par) capital stock. **Offering**—Price $100 each debenture. A bonus of 100 shares capital stock will accompany each production debenture. No underwriting. For exploration, development and equipment to be used as corporation elects.

Newburgh Steel Co., Inc., Detroit
Aug. 2 filed 30,000 shares of 6% cumulative convertible preferred (par $10), and 30,000 common shares ($1 par). **Underwriters**—Names by amendment. **Offering**—Shares are issued and outstanding and are being sold by Maurice Cohen and Samuel Friedman, President and Secretary-Treasurer, respectively, each selling 15,000 shares of preferred and 15,000 shares of common. **Price**—$10 a share for the preferred and $6 a share for the common. Expected late October or early November.

New England Gas and Electric Association
July 11 filed $22,500,000 20-year collateral trust sinking fund Series A bonds, and a maximum of 1,568,980 common shares ($5 par). **Underwriters**—By amendment. Bidders may include Halsey, Stuart & Co. Inc. (bonds only), Bear, Stearns & Co. (stock only), First Boston Corp., White, Weld & Co.-Kidder, Peabody & Co. (jointly). **Offering**—Bonds and common stock are being offered in connection with a compromise recapitalization plan approved by the SEC, on June 24, 1946, which among other things provides for the elimination of all outstanding debentures and preferred and common stocks, and for the issuance of $22,500,000 of bonds and 2,300,000 of new common shares. The SEC has extended to Nov. 30 time within which refinancing may be carried out. Bids for the purchase of the bonds and the common stock which were to be received by the company Aug. 13 were withdrawn Aug. 12. Sale postponed indefinitely.

Northern Engraving & Mfg. Co., La Crosse, Wis.
Aug. 29 filed 70,000 shares ($2 par) common stock. **Underwriter**—Cruttenden & Co. **Offering**—All shares are issued and outstanding and being sold for the account of present holders. **Price**—$16 a share. **Proceeds**—To selling stockholders. Indefinitely postponed.

Northern Indiana Public Service Co.
Aug. 28 filed maximum of 384,016 shares of common stock. Underwriters by amendment as shares will be offered under competitive bidding. Probable bidders include Blyth & Co., Inc.; The First Boston Corp.; Stone & Webster Securities Corp., and Harriman Ripley & Co., Inc. (jointly). Of the shares registered, 182,667 are being sold by Midland Realization Co.; 54,426 by Midland Utilities Co., and 146,923 by Middle West Corp.

Northwest Airlines, Inc. (10/15)
Sept. 19 filed 271,935 shares ($10 par) common. **Underwriter** — Auchincloss, Parker & Redpath, Washington, D. C.; The First Boston Corp., and Hornblower & Weeks, New York. **Offering**—Shares initially will be offered for subscription to common stockholders of record Oct. 15 in ratio of one additional share for each two shares held. Rights expire Oct. 28. Unsubscribed shares will be sold to underwriters. **Price**—By amendment. **Proceeds**—To pay bank loans; purchase of additional equipment and facilities.

Northwestern Public Service Co. (10/15)
June 28 filed $5,275,000 first mortgage bonds, due 1973. **Underwriters**—To be determined by competitive bidding. Probable bidders include Halsey, Stuart & Co. Inc.; Harriman Ripley & Co., Inc.; Lee Higginson Corp.; A. G. Becker & Co., Inc., Salomon Brothers & Hutzler, Dick Merle-Smith, Drexel & Co., Harris Hall & Co. (Inc.) and Stroud & Co., (jointly). **Bids Invited**—Bids for the purchase of the bonds will be received at office of Chase National Bank N. Y. up to 11:30 a.m. on Oct. 15.

Nugent's National Stores, Inc., New York
June 21 filed 85,000 shares ($1 par) common stock. **Underwriters**—Newburger & Hano, and Kobbe, Gearhart & Co., Inc. Price, $6.75 a share. **Proceeds**—Net proceeds to the company from 62,000 shares, estimated at $350,200, will be applied as follows: About $111,300 for retirement of outstanding preferred stock; $41,649 to purchase 100% of the stock of two affiliates, and balance $197,000 for other corporate purposes. The proceeds from the other 3,000 shares will go to selling stockholders. Offering temporarily postponed.

Ohio Associated Telephone Co.
Sept. 11 filed $3,250,000 of first mortgage bonds, 2⅞% series, due 1976; and 35,000 shares (no par) $2 cumulative preferred. **Underwriters** — Paine, Webber, Jackson & Curtis and Stone & Webster Securities, both of New York. **Offering**—Of the preferred being registered, 21,000 are being sold by the company and the remaining 14,000 are being sold by General Telephone Corp. **Price**—By amendment. **Proceeds**—Net proceeds to the company will be use to redeem its $1,770,000 of 3½% first mortgage bonds, due 1970, at 107½%; to repay $1,450,000 in bank loans; to pay General Telephone Corp. $937,518 in retirement of its 6% cumulative preferred owned by General and to reimburse its treasury for funds previously expended.

Old Town Ribbon & Carbon Co. Inc., Brooklyn
Sept. 19 filed 140,900 shares ($5 par) common. The shares are being sold by three stockholders. **Underwriter**—The First Boston Corp., New York. **Price**—By amendment.

Olokele Sugar Co., Ltd., Honolulu, Hawaii
Sept. 27 (letter of notification) 36,000 shares ($20 par) common. Offering price, $20 a share. No underwriter. For partial payment of construction of new village for employees of company, and roads and utilities appurtenant thereto, or for partial payment of bank loans incurred for purpose of paying such construction costs.

Orange-Crush de Cuba, S. A., Havana, Cuba
July 22 filed 75,000 shares of $1.50 par common. **Underwriter**—Elder, Wheeler & Co. **Offering**—Price $8 a share. **Proceeds**—Of the total company is selling 25,000 shares and stockholders are selling 50,000 shares. The company will use its proceeds for equipment. Offering date indefinite.

• **Pacific Gas & Electric Co.**
Oct. 4 filed $25,000,000 2¾% 1st and ref. mtge. bonds Series P due June 1, 1981. Underwriters—Names by amendment. Probable bidders include The First Boston Corp., Blyth & Co., Inc.; Halsey Stuart & Co., Inc. **Proceeds**—To finance part of construction program.

Pacific Power & Light Co., Portland, Ore.
July 10 filed 100,000 shares ($100 par) preferred stock. **Underwriters**—By amendment. Probable bidders include Blyth & Co., Inc., White, Weld & Co. and Smith, Barney & Co. (jointly); The First Boston Corp., W. C. Langley & Co.; Harriman Ripley & Co. **Offering**—Company proposes to issue the 100,000 shares of new preferred for the purpose of refinancing at a lower dividend rate the 67,009 outstanding preferred shares of Pacific and the 47,806 preferred shares of Northern Electric Co., in connection with the proposed merger of Northwestern into Pacific. In connection with the merger, the outstanding preferred stocks of Pacific and Northwestern will be exchanged share for share, with cash adjustments, for the new preferred stock of Pacific, the surviving corporation. **Offering price**—To be supplied by amendment.

Pal Blade Co., Inc., New York
June 28, 1946 filed 227,500 shares ($1 par) capital stock. **Underwriters** — F. Eberstadt & Co., Inc. **Offering** — 225,000 shares are outstanding and are being sold by 10 stockholders, and 2,500 shares are being sold by A. L. Marlman to all salaried employees. Indefinitely postponed.

Palmetto Fibre Corp., Washington, D. C.
August 16 filed 4,000,000 shares (10¢ par) preference stock. **Underwriting**—Tellier & Co., New York. Price 50 cents a share. **Proceeds**—The company will use estimated net proceeds of $1,473,000 for purchase of a new factory near Punta Gorda, Florida, at a cost of about $951,928. It will set aside $150,000 for research and development purposes and the balance will be used as operating capital.

Pantasote Plastics Inc., Passaic, N. J.
Sept. 27 filed 60,000 shares ($25 par) 4½% cumulative preferred and 1,352,677 shares ($1 par) common. **Underwriter**—Underwriting arrangements will be supplied by amendment, but it is contemplated that Van Alstyne, Noel & Co., New York, may be one of the underwriters. **Offering**—Company is making an exchange offer to stockholders of Textileather Corp., Toledo, O.; The Pantasote Co., Passaic, N. J.; and Astra Realty Co., New York, for the purpose of acquiring the controlling interests of the companies. Pantasote Plastics will offer three shares of its common, plus ⅔ of a share of preferred, for each share of Textileather common. It will offer two shares of its common for one share of Pantasote common, and 12 shares of its common for each shares of Astra common. It is proposed that underwriters will offer publicly a maximum of 60,000 shares of preferred and 250,000 shares of common, of which 12,853 shares of preferred and 50,000 shares of common are to be purchased by the underwriters from the company and the balance (which are part of the shares to be received under the exchange offer) are to be purchased from selling stockholders. **Proceeds** — Proceeds to the company will be applied to make loans to Textileather and Pantasote for various corporate purposes.

Peninsular Oil Corp., Ltd., Montreal, Canada
Sept. 3 filed 600,000 shares of common (par $1). **Underwriter**—Sabiston Hughes, Ltd., Toronto, Canada. **Price**—60 cents a share. **Proceeds**—Net proceeds will be used to purchase drilling machinery and other equipment.

• **Pfister Associated Growers, Inc., El Paso, Ill.**
Sept. 30 (letter of notification) 1,750 shares ($100 par) preferred. **Offering**—Price $100 a share. No underwriting. To replace capital for previous expenditures and to finance 1946 crop of seed corn to be harvested this fall.

Pharis Tire & Rubber Co., Newark, O.
Sept. 27 filed 100,000 shares ($20 par) cumulative convertible preferred. **Underwriter**—Van Alstyne, Noel & Co. and G. L. Ohrstrom & Co., New York. **Price**—$20 a share. **Proceeds**—For payment of loans and to replace working capital expended in purchase of building from RFC and to complete construction of a building. **Business**—Manufacture of tires and tubes and tire repair materials.

• **Philadelphia Country Club, Bala, Pa. (10/12)**
Oct. 7 (letter of notification) $200,000 20-year amortizing serial 2½% notes; $200,000 20-year discount-amortizing notes; $200,000 20-year discount notes, and $200,000 certificates of interest. No underwriters. **Proceeds** will be used to reduction of principal of outstanding $90,000 mortgage; capital improvements, etc., $60,000; additional working capital, $50,000.

Phillips & Benjamin Co., Waterbury, Conn.
Sept. 23 (letter of notification) 14,164 shares of $5 par common. **Offering**—To be offered for subscription to present stockholders on the basis of one share for each share held. Price not disclosed although it is stated that company wishes to have available 6,000 shares to take care of options which it proposes to give to management for past services, the options to run over a period of two years and six months and provide that the stock may be purchased at $10 a share within 18 months and thereafter and before the expiration of the option, at $15 a share. No underwriting. For exploitation of its business.

Plastic Molded Arts, Inc., New York (11/15)
Aug. 27 filed 60,000 shares of preferred stock ($10 par) and 75,000 shares of common (par 50c). **Underwriter**—Herrick, Waddell & Co., Inc. **Offering**—Company is offering the preferred stock to the public, while the common is being sold by certain stockholders. **Prices**—Preferred, $10 a share; common, $4 a share. **Proceeds**—Proceeds from sale of preferred will be used to purchase equipment, pay bank loans, and other corporate purposes.

Portis Style Industries, Inc., Chicago
Sept. 27 filed 110,000 shares ($1 par) common. **Underwriters**—Brailsford & Co., and Shillinglaw, Bolger & Co., Chicago. **Offering**—Of the total 100,000 shares will be offered to the public and 10,000 to employees of the company. **Price**—Price to public $6.50 a share. Price to employees $5.525 a share. **Proceeds**—Shares are being sold by four stockholders of the company who will receive proceeds. The registration showed that the company changed its authorized capital from 4,000 shares ($100 par) common to 400,000 shares ($1 par). Each shares of $100 par common was changed into 100 shares of $1 par common, which exchange was consummated Sept. 23.

Portland (Ore.) Transit Co.
June 14 filed (as amended) 60,000 shares of 5% cumulative convertible preferred stock (par $25) and 300,000 shares of common stock, of which 80,000 shares will be sold to Pacific Associates Inc. at $6 per share, also an undertermined number of common shares for conversion of preferred. **Underwriters** — First California Co.; Scherck, Richter & Co.; Weeden & Co.; Allen & Co., and Rauscher, Pierce & Co. Offering price, preferred $26.50 per share; common, $7.50 per share.

Precision Parts Co. of Ann Arbor, Mich.
July 5 filed 75,000 shares 5% cumulative convertible preferred stock ($10 par). **Underwriter**—Van Alstyne, Noel & Co. and associates. Price by amendment. **Proceeds**—Of the net proceeds, $250,000 will be used to pay 3% notes held by National Bank of Detroit, $75,000 to reimburse treasury for sums spent in acquisition of the electrical division plant of the company, $30,000 for construction of space for executive offices in the economy baler plant, and the balance will be deposited with general funds. Offering temporarily postponed.

Read (D. M.) Co., Bridgeport, Conn.
Sept. 27 filed 100,000 shares (25¢ par) common. **Underwriter**—Van Alstyne, Noel & Co., New York. **Price**—By amendment. **Proceeds**—Estimated net proceeds of $476,362 will be used to pay off a loan from the Marine Midland Trust Co., New York. **Business**—Operation of department store.

Red Rock Bottling Co. of Youngstown, Warren, O. (10/15)
Aug. 16 (letter of notification) 199,000 shares (50c par) common and warrants for purchase of 125,000 additional common. **Offering**—Price $1.50 a common share and one cent a warrant. **Underwriters**—Frank C. Moore & Co., New York; and Euler & Co., Philadelphia. For payment of plant mortgage, purchase of additional equipment and for working capital.

Regal Games, Inc., New York
Sept. 27 (letter of notification) 80,000 shares (25¢ par) common; 37,100 common stock purchase warrants and shares subject to such warrants; and 85,500 shares of common issued to organizers for cash which may be considered an integral part of this offering. Offering price, $1.50 a share of common; one cent a warrant and the organizational shares which latter were sold privately at 25 cents each. **Underwriter**—W. H. Bell & Co., Inc., Boston. **Proceeds**—For machinery and equipment, sales offices and working capital.

● **Republic Aviation Corp., Farmingdale, N. Y.**
Oct. 9 filed 100,000 shares ($50 par) convertible preferred stock. **Underwriters**—Hayden, Stone & Co., and Kidder, Peabody & Co. **Price**—By amendment. **Proceeds**—Proceeds, together with bank loans, will be used to increase working capital. Such funds are deemed necessary in view of the additional facilities that company intends to acquire and its large backlog of peacetime business. **Business**—Production of airplanes.

Republic Foil & Metal Mills, Inc., Danbury, Conn.
Sept. 6 filed $500,000 of 3½% notes, due 1966; 2,500 shares of 3½% preferred stock (par $100) and 15,000 shares of common stock (no par). **Underwriting** — No underwriting. **Offering**—The securities being registered include notes, preferred and common previously sold to private subscribers for an aggregate price of $464,384. The company is offering to repurchase these securities with interest and reoffer them to the public. The purpose of the recission offer is because the earlier securities were not registered with the SEC. **Price**—The notes will be sold at 100, the preferred at $100 a share, and the common at 10 cents a share. **Proceeds** — Proceeds will be added to general corporate funds.

Republic Pictures Corp., New York
Registration originally filed July 31 covered 184,821 shares of $1 cumulative convertible preferred ($10 par) and 277,23. shares (50c par) common stock, with Sterling, Grace & Co. as underwriters. Company has decided to issue 454,465 shares of common stock only, which will be offered for subscription to stockholders of record Sept. 5 to the extent of one share for each five held. Issue will not be underwritten.

Reynolds Pen Co., Chicago
May 4 filed 400,000 shares of common stock (no par), of which 100,000 shares are being sold by company and 300,000 by stockholders. **Underwriters**—Names by amendment. **Offering**—Terms by amendment. **Proceeds**—Net proceeds to the company will be added to working capital.

Rowe Corp., New York
July 29 filed 100,000 shares common stock. **Underwriters**—Hayden, Stone & Co. **Offering**—The selling stockholders, who include Robert Z. Greene, President, are offering the shares to the public through the underwriters, for their own account. Price, by amendment. Offering date indefinite

St. Regis Paper Co., New York
Sept. 27 filed 150,000 shares ($100 par) first preferred. **Underwriter**—To be supplied by amendment. Probable underwriter, White, Weld & Co. **Offering**—Terms of offering and price by amendment. **Proceeds**—Net proceeds will be used to redeem company's 5% cumulative prior preferred stocks and an unspecified amount will be advanced to Taggart Corp., a subsidiary, for redemption of its $2.50 cumulative preferred. Both securities are redeemable at $52.50 a share plus accrued dividends. In addition, the company will apply $2,675,000 of the proceeds as advances to Alabama Pulp and Paper Co., of whose common stock the company owns 25,000 shares. The balance of proceeds will be used to restore working capital.

San-Nap-Pak Mfg. Co. Inc., New York
July 24 filed 80,000 shares ($1 par) common stock. **Underwriters**—Dunne & Co., New York. **Offering**—Price by amendment. **Proceeds**—Nat E. Heit, President and director, and Harry Preston, board Chairman, Secretary and Treasurer, will receive net proceeds as selling stockholders. Offering date indefinite.

Sardik Food Products Corp., New York
May 29 filed 175,000 shares of capital stock (no par). **Underwriter**—George F. Breen, New York. **Offering**—Stock will be offered to public at $14 a share. Of the total being offered company is selling 155,000 shares and the remaining 20,000 shares are being sold by two stockholders. **Proceeds**—Working capital, purchase equipment and plant, etc.

● **Saul (B. F.) Co., Washington**
Oct. 4 (letter of notification) $125,000 of promissory notes made by the Stear Mark Corp. Offering price not stated, but presumably at face. The money for the notes was advanced to the issuer by the B. F. Saul Co. which is offering the notes for sale for its own account. The proceeds will reimburse it for money advanced to the issuer.

● **Saul (B. F.) Co., Washington, D. C.**
Sept. 30 (letter of notification) $1,950 of promissory notes made by Mary B. Plant, Washington, D. C. Offering price not stated, but presumably at face amount. The money for the note originally was advanced to the issuer by the B. F. Saul Co. which will use the proceeds to reimburse it for the money advanced in the purchase of the notes.

Scripto, Inc., Atlanta, Ga.
Aug. 7 filed 25,000 shares ($10 par) 5% cumul. convertible preferred stock and 244,000 shares ($1 par) common stock. **Underwriters**—Clement A. Evans & Co., Inc., Atlanta. Price of preferred $10.75 per share; price of common, $5.625 per share. **Proceeds**—Company is selling the 25,000 shares of preferred to the underwriters at $10 a share and stockholders are selling 244,000 shares to the underwriters at $5 a share. The registration stated that 24,000 of the 244,000 shares of common are being reserved for a period of four days following the effective date of the registration for sale to employees, officers and directors at $5 a share. The company also is selling 200,000 stock purchase warrants to executives of the company at 50 cents a warrant. Company will use its proceeds for general corporate purposes. Offering date indefinite.

Seaboard Finance Co., Washington, D. C.
Aug. 29 filed 240,000 shares of common stock (par $1). **Underwriters**—Van Alstyne, Noel & Co., and Johnston, Lemon & Co. **Offering**—Certain stockholders are selling 140,000 issued and outstanding shares. Company is offering 100,000 shares. Price by amendment. **Proceeds**—From company's 100,000 shares proceeds will be used to reduce outstanding bank loans and commercial paper and for other corporate reasons. Offering temporarily postponed.

Seco Signal Corp., Baltimore, Md.
Sept. 23 (letter of notification) 120,000 shares ($1 par) common and $40,000 of 6% bonds, due one year from date of issue. Offering price, $100 a unit. The 120,000 shares of common will be given as a bonus to the purchasers of the bonds on the basis of 300 common shares for each $100 bond. **Underwriting**—Light, Wofsey & Co., Baltimore. For organization of business.

● **Six Nations Baseball & Amusement Club, Inc., Flushing, N. Y.**
Oct. 3 (letter of notification) 826 shares (no par) common capital. **Offering**—Price $25 a share. No underwriting. For purchase of equipment, busses for transportation of supplies and personnel and other items.

Solar Manufacturing Corp.
June 14 filed 80,000 shares of $1.12½ cumulative convertible preferred stock, series A (par $20). **Underwriters**—Van Alstyne, Noel & Co. Price by amendment. **Proceeds**—Net proceeds will be applied for the redemption of outstanding series A convertible preferred stock which are not converted into common stock. Such proceeds also will be used for additional manufacturing facilities in the amount of $600,000; for additional inventory amounting to $400,000, and for additional working capital. Offering temporarily postponed.

Soss Manufacturing Co., Detroit, Mich.
Sept 3 filed 40,000 shares ($25 par) 5% cumulative convertible preferred. **Underwriter**—Ames, Emerich & Co., Inc., Chicago. **Offering**—To be offered to common stockholders for subscription at $25 a share in the ratio of one preferred share for each five shares of common held unsubscribed shares will be sold to underwriters at same price. **Price** — Public offering price of unsubscribed shares by amendment. **Proceeds**—For expansion of plant facilities and for additional working capital. Offering postponed.

● **South Fork Mining and Leasing Co. Inc., Spokane, Wash.**
Sept. 30 (letter of notification) 600,000 shares of common. The notification also covers a recission for 132,000 shares previously sold. **Offering**—Price 12½c a share. Underwriting, none. For mining equipment and mine development.

Soya Corp. of America
Aug. 28 filed 375,000 shares (par 1c) common stock. Underwriter by amendment. **Proceeds**—To repay RFC loan, to buy Canton Mills, Inc. and for working capital. Price by amendment.

Standard Brands, Inc., New York
Sept. 6 filed 220,000 shares (no par) cumulative preferred stock. **Underwriters**—Dillon, Read & Co. Inc. and Blyth & Co. **Offering** — Offering is subject to an offer of exchange to holders of company's 200,000 outstanding shares of $4.50 cumulative preferred. In the event the public offering price of the new preferred is $100 a share, holders of the old preferred will be granted the opportunity to exchange their stock for new preferred at the rate of 1 1/10th shares of new preferred for each share of old preferred. **Price** — By amendment. **Proceeds** — Company will use net proceeds from any shares sold to the public to redeem all unexchanged shares of old preferred at $110 a share.

Steep Rock Iron Mines Ltd., Ontario
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. Offering date indefinite.

Stern & Stern Textiles, Inc., New York
Aug. 29 filed 191,000 shares of common stock ($1 par). **Underwriter**—Carl M. Loeb, Rhoades & Co. **Offering**—Company is offering 51,000 shares and selling stockholders are disposing of 140,000 issued and outstanding shares. Price by amendment. **Proceeds**—Proceeds from the sale of 51,000 shares by the company will be used to reimburse treasury for funds spent on June 26 to retire 5,000 shares of preferred stock, $100 par. Offering temporarily postponed.

Stix, Baer & Fuller Co., St. Louis
Aug. 28 filed 102,759 shares common stock (par $5). **Underwriter**—Goldman, Sachs & Co. **Offering**—Eight selling stockholders are disposing of 62,000 shares, and the company will offer 40,759 shares initially to its preferred and common stockholders. Price by amendment **Proceeds**—Net proceeds from the sale of the company's shares will be added to its "building construction and improvement fund." Offering date indefinite.

Street & Smith Publications, Inc.
July 17 filed 197,500 shares of common stock. **Underwriters**—Glore, Forgan & Co. **Offering**—The offering represents a part of the holdings of the present stockholders. Indefinitely postponed.

Swern & Co., Trenton, N. J.
Aug. 28 filed 195,000 shares common stock (par $1). **Underwriter**—C. K. Pistell & Co., Inc. **Offering**—Company is selling 45,000 shares, and eight selling stockholders are disposing of the remaining 150,000 shares. **Price**—$10.50 a share. **Proceeds**—From 45,000 shares sold by company will be applied to working capital initially.

Taylor-Graves, Inc., Saybrook, Conn.
July 12 (letter of notification) 44,300 shares of ($5 par) cumulative convertible preferred stock and 44,300 shares common stock (par 50c). **Offering**—Price $6 a share for preferred and 75 cents a share for common. **Underwriter**—Amos Treat & Co. **Proceeds**—For payment of notes, mortgages and for general corporate purposes. Offering temporarily postponed.

Tele-Tone Radio Corp., New York
Aug. 1 filed 210,000 shares of common stock (par 50 cents). **Underwriters**—Hirsch & Co. **Offering**—Company is offering 75,000 of the shares registered. Eleven stockholders are selling 135,000 issued and outstanding shares, for their own account. **Offering**—Price $6.75 a share. **Options**—Selling stockholders are also selling to the underwriters at 7 cents per option warrant options to

(Continued on page 1842)

(Continued from page 1841)

purchase 18,000 shares of the issued and outstanding common owned by them. They are also selling to Hallgarten & Co., for $1,500, plus $360 as a contribution toward the expenses of issuance, options to purchase an additional 18,000 shares of the issued and outstanding common. **Proceeds**—Net proceeds for the sale of company's 75,000 shares will be used for increasing working capital, with a view to entering the Frequency Modulation and Television fields at an advantageous time. Offering date postponed.

• Transue & Williams Steel Forging Corp., Alliance, Ohio

Oct. 2 (letter of notification) the number of shares to be sold on behalf of John C. Redmond, Vice-President and Director will be determined by market price and will be so regulated that the gross proceeds will not exceed $100,000. The selling stockholder will authorize the Market Street National Bank, Philadelphia, where securities are pledged as collateral security, to sell, from time to time, through their brokers on the New York Stock Exchange.

• United Benefit Fire Insurance Co., Omaha, Neb.

Oct. 7 filed 50,000 shares ($10 par) common. **Underwriting** — None. **Price** — $30 a share. **Proceeds** — The company stated that $500,000 of the $1,495,000 proceeds will constitute the capital of the company, and after deducting $5,000 estimated expenses, it will classify $995,000 as surplus. **Business**—Company was incorporated in Nebraska Sept. 20, 1946 and intends to engage in the fire, marine and automobile insurance business.

United States Shoe Corp., Cincinnati, Ohio

Aug. 25 filed 24,000 shares ($4 par) common. **Underwriter**—Benj. D. Bartlett & Co., Cincinnati. **Offering**—Shares will be offered to the public by seven stockholders, who will receive the entire net proceeds. Price by amendment. Offering date indefinite.

Upper Michigan Power & Light Co., Escanaba, Mich.

July 18 (letter of notification) 5,500 shares of 4¼% first preferred stock series B ($50 par). Offering price, $50 a share. **Underwriter**—First of Michigan Corp., Detroit. **Proceeds**—For enlargements and improvements of power plant facilities.

• Valsetz Lumber Co., Portland, Ore.

Oct. 4 filed 14,000 shares ($100 par 2% cumulative Class A preferred and 2,000 shares ($100 par) 2% cumulative Class B preferred. **Underwriters** — None. **Offering** — Stocks will be offered for sale to customers and former customers of the Herbert A. Templeton Lumber Co. with whom the registrant has an exclusive sales contract whereby all the lumber produced by the registrant will be sold to Templeton. **Price**—$100 a share for each class of stock. **Proceeds**—Company was organized last Sept. 19 for the purpose of acquiring certain properties owned by Cobbs and Mitchell Co. and W. W. Mitchell Co. and to purchase 80% or more of the capital stock of Valley and Siletz RR. Proceeds will be used to make part of the down payment on the property and to furnish working capital. **Business**—Operation of lumber manufacturing plant.

Velvet Freeze, Inc.

July 24 filed 203,500 shares of stock which are to be sold for the account of certain stockholders. **Underwriters**—Sherck, Richter & Co., and Straus & Blosser. **Offering**—Of the total, 200,000 shares will be sold through the underwriting group at $8.50 a share, and 3,500 shares will be offered to certain employees at $7.50 a share. Offering postponed indefinitely.

Virginia Dare Stores Corp., N. Y.

July 3 filed 90,000 shares of 5% cumulative convertible preferred stock, ($10 par). **Underwriters**—Newburger & Hano; Kobbe, Gearhart & Co., Inc., and D. Gleich Co. **Offering**—Underwriters propose to offer the shares in part to the public and the balance to certain dealers, among whom any underwriter may be included, at the public offering price, less certain concessions. Price $10 per share. **Proceeds**—It is presently anticipated that $437,500 will be used to acquire the capital stock of Williams Stores, Inc., and Levitt Millinery Co. The balance will be applied to general corporate purposes. Offering temporarily postponed.

Webster Electric Co., Racine, Wis.

Sept. 3 filed an unspecified number of shares of common stock (par $1). **Underwriting**—Loewi & Co., Milwaukee. **Offering**—The shares are being sold both by the company and by shareholders. The respective amounts will be supplied by amendment. Price by amendment. **Proceeds**—Company will use about $210,000 of its net proceeds to redeem 645 shares of its prior preference stock at $110 a share and accrued dividends, and 1,386 shares of second preference stock at $100 a share and accrued dividends. The balance will be added to general corporate funds.

Weetamoe Corp., Nashua, N. H.

July 15 filed 200,000 shares ($25 par) $1.20 cumulative pfd. stock, 100,000 shares of ($1 par) convertible stock and 650,000 shares ($1 par) common stock. **Underwriters**—Blair & Co., Inc., Reynolds & Co., New York and Maxwell, Marshall & Co., Los Angeles. **Offering**—The preferred and convertible stocks will be offered in units of one share of preferred and one-half share of convertible. Price by amendment. **Proceeds**—Weetamoe Corp. (Name to be changed to Nashua Manufacturing Co. prior to effective date of registration) was incorporated June 27, 1946 to acquire the operating properties and certain other assets of Nashua Manufacturing Co. which was incorporated in 1823. The new company was organized at the instance of Textron, Inc., and is wholly-owned subsidiary, Textron Mills, Inc., which are promoters of the new company. Net proceeds, together with $2,300,000 representing the proceeds from the sale of 50,000 shares of convertible stock to the underwriters and 525,000 shares of convertible stock to Textron, Inc., at $4 a share, will be used as follows: approximately $13,000,000 for payment of a portion of the purchase price of the assets to be acquired from the old company, about $100,000 for organization expenses, and about $1,100,000 for working capital. Registration may be withdrawn.

Westinghouse Electric Corp.

Aug. 14 filed 1,647,037 shares ($12.50 par) common. **Underwriter**—Kuhn, Loeb & Co. **Offering**—Stock will be offered for subscription to holders of outstanding preferred stock and common stock in ratio of ⅛ share for each share of common or preferred held. Unsubscribed shares will be sold to underwriters. **Price**—By amendment. **Proceeds**—To reduce bank loans. Offering temporarily postponed.

West Coast Airlines, Inc., Seattle, Wash.

Sept. 2 filed 245,000 shares ($1 par) common. **Underwriter** — Auchincloss, Parker & Redpath, Washington, D. C. **Price**—$7 a share. **Proceeds**—Will be used for payment of various expenses, repayment of bank loans, purchase of equipment and for working capital. **Business**—Air transportation.

West Virginia Water Service Co.

Aug. 6 filed 46,400 shares (no par) common. **Underwriter**—Shea & Co., Boston. Price, by amendment. **Proceeds**—Shea & Co. is selling 26,400 shares for its own account and the remaining 20,000 shares are being sold by Allen & Co., New York, with Shea as underwriter.

• Wheeler, Osgood Co., Tacoma, Wash.

Oct. 7 filed 80,000 shares ($5 par) 50c cumulative convertible preferred stock and 100,000 shares ($1 par) common. **Underwriter** — Names by amendment. **Price** by amendment. **Proceeds**—Will be used to redeem $625,000 4% bonds and $638,600 first and second debentures; balance for working capital. **Business**—Manufacture of house and garage doors.

White's Auto Stores, Inc. (10/28-31)

Aug. 29 filed 75,000 shares $1 cumulative convertible preferred stock ($20 par) and 50,000 shares common stock (par $1). **Underwriters**—First Colony Corp. and Childs, Jeffries & Thorndike, Inc. **Offering**—Company is offering 75,000 shares of preferred; the 50,000 shares of common are outstanding and being sold by four individuals for their own account. Price by amendment. **Proceeds**—Proceeds from the sale of the preferred stock will be used to provide funds for a wholly-owned subsidiary, retire loans from banks and from White's Employees Profit Sharing Trust, and for additional working capital. Offering date indefinite.

Winters & Crampton Corp., Grandville, Mich.

Aug. 28 filed 119,337 shares of common stock (par $1). **Underwriter**—E. H. Rollins & Sons, Inc. **Offering**—Company is initially offering the stock to its common holders at the rate of one share for each two shares held. Price by amendment. **Proceeds**—To retire a conditional sales contract obligation held by the Reconstruction Finance Corp., pay off bank loans of $600,000, and for working capital.

Wisconsin Power & Light Co., Madison, Wis.

May 21 filed 550,000 shares ($10 par) common stock to be sold at competitive bidding. **Underwriters**—By amendment. Probable bidders include Merrill Lynch, Pierce, Fenner & Beane; White, Weld & Co.; Glore, Forgan & Co., and Harriman Ripley & Co. (jointly); The Wisconsin Co., and Dillon, Read & Co. **Proceeds**—Part of the shares are to be sold by Middle West Corp., top holding company of the System, and part by preference stockholders of North West Utilities Co., parent of Wisconsin, who elect to sell such shares of Wisconsin common which will be distributed to them upon the dissolution of North West Utilities Co.

Yolande Corp., New York

Sept. 17 filed 50,000 shares ($1 par) common stock. **Underwriters**—Headed by E. F. Gillespie & Co., and includes Childs, Jeffries & Thorndike, Inc., New York; Courts & Co., Atlanta; Irving Rice & Co., St. Paul, and Maxwell, Marshall & Co., Los Angeles and New York. **Price**—$10 a share. **Proceeds**—Estimated net proceeds of $400,000, together with $87,125 from the sale of 10,250 additional common shares to J. William Anchell, Vice-President, at $8.50 a share, will be used partly for the purchase of 10,995 shares of capital stock of Island Needlework, Inc., of Puerto Rico, out of a total of 11,000 outstanding shares. The shares will be purchased for a total price of $220,522 from Mrs. Gertrude S. Korsh, sister of Herbert L. Miskend, President and Treasurer of Yolande Corp. Of the remaining proceeds, $68,750, plus dividends, will be used to redeem at $110 a share the company's 625 shares of $100 par 6% cumulative preferred stock. The balance will be used to reimburse the company's treasury for previous expenditure and for additional working capital.

Prospective Security Offerings

(NOT YET IN REGISTRATION)
• INDICATES ADDITIONS SINCE PREVIOUS ISSUE

[EDITOR'S NOTE—Due to the paper situation, we are limiting our coverage of "prospective" financing in this issue to only those undertakings which have come to hand during the past week, thus omitting the items of this nature which can be reported in previous issues. We regret the necessity for this action and will resume the usual complete tabulation as early as circumstances permit.]

• American & Foreign Power Co., Inc.

Oct. 3 substitute plan filed with SEC by group known as the Norman Johnson group in recapitalizing company's securities would provide for the issuance of $35,000,000 3% sinking fund debentures and $80,000,000 4% convertible debentures, the proceeds of which together with cash funds of the Company would be used to retire old preferred stock issues.

• American Progressive Health Insur. Co., N. Y.

Sept. 4 expected filing by notification at early date for 60,000 shares 35c participating preferred stock, to be offered at $5 per share with B. G. Cantor & Co. as underwriter.

• Consolidated Edison Co. of New York, Inc.

July 3 company formally submitted to the New York Public Service Commission its plan to issue $290,000,000 of new mortgage bonds as part of a plan to redeem $304,240,000 of callable mortgage bonds and debentures and $15,869,000 of non-callable mortgage bonds due in 1948 and 1949—a total of $320,109,000 of long-term debt. As presented to the Commission, and subject to its approval, company plans to offer first an issue of $100,000,000 of new refunding bonds the proceeds of which, together with temporary bank loans, would be used to retire all of the company's callable mortgage debt and prepay all but about $2,800,000 of non-callable debt. A second issue of $100,000,000 would be used to retire $65,000,000 of company's debentures and repay a part of the bank loans. A final issue of $90,000,000 would refund the last of the debentures and pay off the bank loans. In anticipation of this refinancing, company has already established a bank credit of $65,000,000 with a group of New York banks. Company hopes subject to market conditions, that the refunding of the preferred stock would follow, as soon as feasible, the completion of the bond refunding. Probable bidders include Morgan Stanley & Co.; Halsey, Stuart & Co. Inc. (bonds only), and Blyth & Co., Inc.

• Consolidated Edison Co. of New York, Inc.
Oct. 8 stockholders authorized creation of 2,200,000 shares of new cumulative preferred stock to be issued in one or more series. For the purpose of saving taxes on the authorization of new shares, stockholders voted to reclassify 811,110 shares of old preferred stock and 1,388,890 shares of common stock, authorized but unissued, into the 2,200,000 shares of new preferred. Company plans to issue approximately 2,000,000 shares of the new preferred at not less than $100 a share. The precise method of refinancing the present $5 preferred stock and of issuing new shares of preferred has not been determined and will depend on market conditions prevailing at the time of issue. These steps would be undertaken after completion of $290,000,000 bond refunding. The new preferred will be sold either on competitive bidding or issued in voluntary or underwritten exchange for the $5 cumulative preferred stock or a combination thereof. Probable bidders include Morgan Stanley & Co.

• Delaware Lackawanna & Western RR. (10/22)
Company will receive bids for the purchase of $4,250,000 equipment trust certificates up to 12 noon EST Oct. 22 at office of J. G. Enderlin, Treasurer, Room 2008, 140 Cedar St., New York 6, N. Y. Interest rate is to be specified in the bid. Probable bidders include Halsey, Stuart & Co. Inc. and Salomon Bros. & Hutzler.

• Duluth, Missabe & Iron Range Ry. (10/15)
Company will receive bids up to Oct. 15 (noon) care of First National Bank, New York for purchase of $19,200,000 1st mtge. serial bonds to be dated Oct. 1, 1946, due $1,200,000 annually Oct. 1, 1947-62. No bids for less than 98½ will be received the bidder to specify the interest rate. Probable bidders include Morgan Stanley & Co. and Halsey Stuart & Co. Inc.

• Goodall-Sanford, Inc.
Oct. 29 stockholders will vote on creating a new issue of 35,000 shares of cumulative preferred stock (par $100), with dividend rate not to exceed 4%. Proceeds will be used to redeem outstanding debentures. Probable underwriters, W. C. Langley & Co. and Union Securities Co.

• Safe Harbor Water Power Corp.
Oct. 4 company announced that it plans to refund $19,131,000 4½% bonds through a new series of bonds and serial notes. The new issue of bonds is expected to be sold through competitive bidding. Registration expected about Oct. 25. Probable bidders: Lee Higginson Corp.; Blyth & Co., Inc.; Halsey, Stuart & Co., Inc.

• Studebaker Corp.
Nov. 20 stockholders will vote on authorizing the issuance and sale of up to 200,000 shares of preferred stock for the purpose of increasing corporate capital.

• Textron, Inc.
Oct. 8, early consideration of financing plans by the company is expected following the announcement Oct. 7 of the completion of the transaction by which Gossett Mills and Chadwick-Hoskins, the former's subsidiary, have been merged into Textron Southern, Inc. The latter was formed last May as a subsidiary of Textron, Inc., to acquire all of the outstanding stock of Gossett and Chadwick-Hoskins, for an amount reported at that time to be about $12,000,000. The parent company financed the acquisition in part by means of a bank loan. Probable underwriter of securities, Blair & Co.

• Tucker Corp., Chicago
Oct. 2 the corporation announced that arrangements for offering $20,000,000 in common stock, probably at $5 a share, had been completed with Floyd D. Cerf Co., Inc., Chicago, as underwriter, to finance production of the new rear-engine Tucker Torpedo automobile. Financing plans involve the setting up of two issues of stock aggregating 5,500,000 shares, each with $1 par value. Of the total, 4,500,000 will consist of class A and the remaining 1,000,000 shares will be class B. It is planned to offer publicly 4,000,000 of the class A shares at about $5 a share. The remaining 500,000 shares of class A will be held in the corporation treasury. All the 1,000,000 class B shares will be taken by Mr. Tucker and officers and founders of the Tucker Corp. The class A shares will have an initial preference of 50 cents a share as to dividends. Any dividends above 50 cents a share will be divided equally between the class A and class B shares. The two classes of stock will have equal voting rights. It is said a group of about 300 securities dealers will participate in the public offering within two and one-half or three months.

• Waitt & Bond, Inc.
Nov. 29 stockholders will vote on a recapitalization plan which would eliminate arrears of dividends on the Class A shares, and also provide company with additional equity capital for expansion. The plan calls for the consolidation of Waitt & Bond Inc. with the Waitt & Bond Co., a wholly owned subsidiary. Capitalization of the new corporation would consist of 110,000 authorized shares of $2 cumulative preferred ($30 par), 600,000 shares ($1 par) common and 100,000 stock purchase warrants. The plan involves a public offering of new preferred. The company has been negotiating with Reynolds & Co., which has indicated it will underwrite 50,480 shares of new preferred, subject to market conditions at $30 a share.

• Western Maryland Ry. (10/15)
Company will receive bids for the purchase of $2,740,000 equipment trust certificates ($485,000 Series K, $685,000 Series L and $1,570,000 Series M). Bids will be accepted for any one or two of the three series or all three together. If a single bid for all three series is accepted only one series designated Series K will be issued unless the successful bidder desires separate issues. Dividend rate is to be specified in the bids. Probable bidders include Salomon Bros. and Hutzler and Halsey, Stuart & Co., Inc. Bids will be received up to Oct. 15.

Our Reporter's Report

The first large new issue to reach the market in several weeks, Pacific Telephone & Telegraph Co.'s $75,000,000 of 40-year debentures encountered a ready response when subscription books were opened.

An entirely new money undertaking, this financing provided large institutional investors their first opportunity in some time to place a portion of the funds which have been welling up in their hands.

Carrying a 2⅞% coupon and priced at 103¼ to return the buyer a yield of about 2.74% to maturity, the issue was considered attractive to insurance companies which have been fighting shy of anything less than a 2.75 return.

The Securities and Exchange Commission lost no time in clearing the customary post-effective amendment, this action being taken midway through Tuesday afternoon, instead of late in the evening as had been the custom over a long period. This suggests a disposition on the part of SEC under the new regime to speed things up.

On the basis of the winning bid, which was 102.6199, the net cost to the company was calculated at 2.77%. It was the generally accepted belief that if the financing had been done several months ago, the company might have done slightly better, perhaps realized a 2¾% coupon.

But that bidding was close is apparent from the fact that the high bid represented a difference of only about 58.8 cents a thousand over the second bid of 102.55991, or an overall difference of only about $44.093. Indicative of demand which greeted the offering the debentures are quoted at a premium of ½ point or so.

Heinz & Co. Financing

There is little or no doubt that the offering of H. J. Heinz & Co., preferred and common shares, offered today, will prove a decided success.

Although this operation, involving 100,000 shares of $100 par cumulative preferred stock and 200,000 shares of $25 par common is handled more or less along private lines, that is almost wholly by the underwriting group, it was indicated that inquiries coming to dealers has been heavy since the issues were placed in registration around the middle of September.

Some $5,150,000 of the proceeds will be applied by the company to redemption of its outstanding 4% cumulative preferred stock and the balance will be added to working capital.

Mopping Up Campaign

The quiet spell of the last few weeks has provided the underwriting fraternity with a much needed opportunity to push the job of "mopping up" on the remnants of various issues, mostly equities, which had backed up rather badly over a period of several months.

The task hasn't been an easy one, as most of those involved are willing to admit, but it is going along and accumulations have been substantially reduced in most directions.

According to those who follow the situation the Allis-Chalmers preferred has been pretty well cleared away and the same goes for General Cable Corp.'s issue. There is still some Willys-Overland around, but here too, progress is being made.

Coming Up to the Wire

Consolidated Edison Co. of New York's huge refinancing program is moving gradually down to the starting line. This week stockholders gave approval to the common stock write-down of $172,500,000 demanded by the Public Service Commission, and approved a new issue of 2,200,000 shares of new preferred stock.

The company already has arranged for a bank credit of $65,000,000 to be employed in refinancing its debt and now presumably is only awaiting the PSC's approval of its program to begin the operation.

This will involve three steps, two involving new issues of $100,000,000 each and a third which involves $90,000,000, the latter to pay off debentures remaining outstanding at that time, and also to liquidate the the aforementioned bank loans.

No preferred stock will be issued until the debt readjustment has been completed.

Home Loan Bank Bonds

Everett Smith, Fiscal Agent for the banks in New York, has reported heavy oversubscription of the $140,000,000 of new consolidated 1¼% bonds of the Federal Home Loan Bank, due April 15, 1948.

He reports that demand for the issue originated from all parts of the country and that subscriptions received from country banks were exceptionally heavy.

Morgan Stanley Group Offers H. J. Heinz Co. Preferred-Common Stocks

H. J. Heinz Co., Pittsburgh, 77-year-old manufacturer of the "57 Varieties" of food products is making its first public offering of stock. A group of 62 underwriters headed by Morgan Stanley & Co. is offering 100,000 shares of Heinz 3.65% cumulative preferred stock, $100 par value at $102.75 a share and 200,000 shares of common stock, $25 par value, at $41 a share.

Commenting on the company's public financing, H. J. Heinz II, President, said "until the present time it has been possible to provide for the company's steady expansion program through earnings and short-term bank loans. During recent years, however, greatly increased taxes have made it most difficult to retain sufficient earnings to finance expansion of factory facilities, warehouse space and inventories."

"The sale of stock," Mr. Heinz added, "will mean no change whatever in the present management and control of the company."

Company sales have increased in the last five years from $71,900,304 to $114,150,564. During this same period net income after taxes has increased from $3,922,484 to $4,680,892. The company has paid a cash dividend on its common stock in every year since 1911.

Of the proceeds of this financing, $5,150,000 will be used to redeem the company's outstanding 4% cumulative preferred stock at 103% of par value plus accrued dividends. Balance of the proceeds will be added to working capital.

After the current financing, capitalization will consist of 100,000 shares of preferred and 1,409,064 outstanding shares of common stock. For the redemption of the new preferred stock, a sinking fund has been established which beginning Oct. 1, 1947, calls for an annual amount equal to $200,000 or the consolidated net earnings after preferred dividends for the preceding fiscal year, whichever is lower.

Since H. J. Heinz II became president in 1941, the company has spent $14,988,000 for additions to plants and equipment. New plants were built at Tracy, Calif., and Wallaceburg, Ont., and the company bought plants at Charlevoix, Mich., and Mathews, Ind.

Principal Heinz plants are located at Pittsburgh and Chambersburg, Pa.; Fremont and Bowling Green, Ohio; Salem, N. J.; Medina, N. Y.; Winchester, Va.; Holland, Mich.; Mathews, Ind.; Muscatine, Ia.; Berkeley, Tracy, Isleton and Watsonville, Calif. Foreign subsidiaries of the company operate two plants in Canada and one each in England, Australia and Spain.

In the United States the company has 75 sales branches and 60 warehouses located in principal cities. Sales are made directly to about 200,000 grocery accounts in this country.

DIVIDEND NOTICES

Some Wall Street Bankers Believe Events of Next Few Months Will Determine Stock Trend

(Continued from page 1782)

prices of consumer commodities the stock market will drop again next spring to a point even lower than the level to which it has fallen at the present time.

Two factors are seen as the dominant influences affecting current trends in the stock market. One of these is the disturbed labor situation. Practically all the analysts are agreed on this point. The effects of strikes on the economy are considered by them as a great deal more devastating than people generally recognize. It is the strike itself aside from the demands of the strikers which upsets the economy, they hold. Strikes in the supply industries, for instance, by keeping vital parts from the assembly lines in other industries, they point out, can tie up production all along the line with serious repercussions on the general volume of trade and employment. Part of the prevailing low productivity of labor, they hold, is undoubtedly due to the artificial shortage of necessary supplies caused by strikes. Some of the low productivity, however, results from too much soldiering on the job, too, they think.

One broker believes that the time has come for the government to take effective measures to prevent strikes in the vital public welfare industries, that is, all industries except those in the definitely luxury class, and a bank economist argues that labor leaders would be acting in the best interests of labor itself by hesitating to call any strike.

Another factor of major importance disturbing the stock market is the fact that—as one banker put it—though the war has been over a year, peace does not yet exist in the world, notably on the continent of Europe. According to this banker, though war may not break out with Russia there will probably be a succession of international crises that will retard any return to normalcy in business.

Though talk about impending war has subsided somewhat, some sections of Wall Street still think that the danger of war is as great now as it was a few weeks ago. The recent speeches of Stalin and Byrnes on war and the rumors of war were disappointing, according to one broker who thinks that the undercurrent of world action is arousing the fears of the world more now than ever. A joint statement by the leading powers of the world that, despite certain national differences and ideologies, they would endeavor to effect a settlement of the issues before them from some commonly acceptable basis would change the situation considerably, he believes. The great need in this country is for a positive instead of a negative foreign policy, he holds. Observers of the international scene shouldn't be misled by the fact that the people here do not want war since people everywhere never have wanted war, not even the Germans in the last war, he says.

Current weakness in the stock market, it is also felt, can be attributed partly to the fact that the credit base, for the extension of bank loans to industry has been restricted by recent Treasury debt reductions which necessitates many banks calling loans and the liquidation of security holdings by customers. Mergers in which the large companies have absorbed their sources of supplies have also had a tendency to upset business conditions by disturbing long-standing equilibriums in industry, forcing the other former customers of these supply houses to look for other markets in which to purchase materials vital to their production, it is seen.

Government price controls have also been upsetting the market, it is felt. In fact, according to one banker, OPA prices are becoming more like floors than ceilings to prices. One bank economist holds that prices generally are all out of kilter at the present time. The wages that some workmen are receiving, for instance, he points out, are wholly disproportionate to those which others are getting. There must be more equilibrium in the price structure, he thinks. The election is seen as another disturbing influence. One broker thinks a Republican victory in November would tend to reverse the present downward trend of the market.

In some quarters on Wall Street it is felt that investors are dominated too much by the thought of the inevitability of a stock crash. Remembering 1929, for instance, investors are inclined to think that a decline in stock prices is something that must be faced eventually, it is pointed out. Some analysts, however, feel that the conditions prevailing in the general business picture today are not what they were back in '29. Never in the entire history of the world, it is pointed out, has there been such an accumulated demand for goods. Never in history have there been more means—money or credit—for buying those goods. Never, too, has the market been so restricted in favor of the United States. As one banker said, "I can't see how the market can be too bad with all the money there is in circulation and the great deferred demand that exists for goods."

One observer thinks that the "shock" to the economy caused by the severity of the recent decline in stock prices may prove to be a good thing. Perhaps people needed a jolt of this kind, he believes. People with moderate incomes have been spending too much money on luxuries—too much in beer parlors and on fur coats—rather than keeping cash in their pockets to buy consumer durables later, he points out.

Some analysts think department store sales provide a valuable index of general business conditions. Those who follow this view attach great significance to the fact that the Federal Reserve Bank index of department store sales has been extremely high. In August, this index at 290 (1935-39=100) reached an all-time high. The August figure was 154% higher than the 114 figure for the year 1940. Sales have mounted faster than general prices as seen in the fact that the Federal Reserve Bank index for the cost of living in August at 143.7 was only 43% higher than the 100.2 figure of 1940. Likewise, though the cost of living index rose 10% from January to August this year, the index of department store sales increased 27%. The department store sales index for September fell slightly to 270 but this drop was attributed largely to the decline in the volume of business in the metropolitan New York area because of the truck and delivery strike.

Two With Lester & Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Jerome Miller and John K. MacDonald have become associated with Lester & Co., 621 South Spring Street, members of the Los Angeles Stock Exchange.

INDEX

For detailed index of contents see page 1779