A Merry Christmas

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

The COMMERCIAL and FINANCIAL CHRONICLE

Reg. U. S. Pat. Office

Volume 164 Number 4552 — New York, N. Y., Thursday, December 19, 1946 — Price 60 Cents a Copy

Forecastability of the Stock Market

By WASHINGTON DODGE*

Financial publicist views forecasting as too often constituting a fascinating pastime in lieu of exact science. Critically appraises two approaches to stock market predicting: (1) by mechanistic "systems," which he likens to schemes for beating roulette; and (2) by scientific use of statistics, which are made ineffective by the constantly varying differential between true value and market price. Maintains there is no way of forecasting duration or extremity of market movement; the only possibility being determination of value of particular security in relation to general market. Believes higher prices would be justified in 1947.

Public prophecy is an occupation eschewed by the careful broker. Old hands at the brokerage game are capable ventriloquists, saying nothing but putting their thoughts into the mouths of customers. Most of all to be avoided is the written word—or the word spoken before witnesses. And I see too many witnesses of competence tonight.

Washington Dodge

But forecasting is a fascinating pastime, whether it be the end-product or the by-product of one's prime enterprise. The reasons for its fascination are

(Continued on page 3233)

*An address by Mr. Dodge before New York Chapter, American Statistical Association, New York City, Dec. 12, 1946.

Should Obsolete Equipment Be Replaced Now?

By ROY L. GARIS
Professor of Economics, University of Southern California

Economist, in discussing the question of whether new capital equipment should be acquired: (1) when business is prosperous and prices are high, or (2) in times of depression when costs of equipment are reduced, argues that it is more economical to follow first course, because: (1) new machinery has greater marginal productivity; (2) it gives purchaser a larger depreciation deduction in tax assessment; and (3) it reduces maintenance costs and increases efficiency of worker. Contends prices of capital goods will not decline substantially and there will be from five to eight years of prosperity.

Recently the author of this study was asked by a large corporation on the Pacific Coast whether capital assets should be purchased now when all costs including taxes, are high, or should the purchase of capital investments be postponed until all costs are low. Do American business organizations tend to purchase their equipment in times of business prosperity, when costs are high? If so, why? Or should such purchases be postponed to the depression phase of the business cycle when all costs tend to be, or are, low?

Roy L. Garis

If the proper time to make capital investments is in the depression phase of cycle, can it be assumed that depression will overtake the American economy in 1947? If it should do so, can it be assumed that the cost of the necessary capital assets to replace existing obsolete, worn-out equipment, some of which is admittedly in the "bale-wire" stage, will be sufficiently lower to justify postponement of investment?

If a depression of major proportions is not likely in 1947, when can one be anticipated?

In his Presidential address, "The Conditions of Expansion," delivered at the 54th Annual Meeting of the American Economic Association, Professor S. H. Slichter, of Harvard University, pointed out that "the course of events does not always correspond to the theoretical models." He emphasized that "In the postwar world, the propensity to consume will be higher than in the twenties" and that the marginal efficiency of capital will tend to be less. His searching analysis of the

(Continued on page 3234)

Economic Outlook for 1947

By DR. LEWIS H. HANEY*
Professor of Economics, New York University

Dr. Haney considers current arguments for severe 1947 recession as invalid. Because of existing vast currency inflation, and impending increase in loan and deposit turnover, 1947 readjustment will occur mainly through "upping" the low price and output items. Anticipates rise in national income with larger share for investors; expansion of production of both hard and soft goods;; and growth of inventories. Holds we are not at peak of cycle; but only a little above "normal."

Lewis H. Haney

My forecast for 1947 is that early in the year there will be irregularity, attending mixed upward and downward readjustments. Then, assuming no great strikes, we are likely to see the beginning of a sustained period of expansion, to run for something like two years thereafter.

A corrective readjustment of unbalanced conditions now goes on, with both advances and declines required.

*Address by Dr. Haney before New York Chapter, American Statistical Association, Dec. 12, 1946.

(Continued on page 3240)

For Pictures of Security Traders Association of New York Annual Dinner see Pictorial Insert.

The World Bank—Its Aims and Importance

By EUGENE MEYER*

Retiring President of International Bank for Reconstruction and Development

First President of World Bank outlines its organization and objectives and describes its progress up to present. Stresses Bank is to be guided by economic and not political considerations and that it will not replace private foreign investment. Points out security back of proposed debentures of the Bank and maintains operation of Bank will be along strictly conservative lines. Says as creditor nation we should engage in foreign investments and that one of principal functions of Bank is to promote private foreign investment. Holds Bank will be instrument for developing more prosperous world.

When the Life Insurance Association of America invited me to address your annual meeting, it was a privilege as well as a pleasure for me to accept. Since then I have resigned as President of the International Bank for Reconstruction and Development. I did so because, and only because, I felt strongly that the point had been reached when the Bank should have a permanent head. The basic organization of the Bank has been developed and it is now passing into the stage of operating activities. Its work henceforth must be viewed in terms of long-time continous operations and its permanent head should have an opportunity to participate in the further determination of policies and procedures and the expansion of staff. It has been a privilege and a satisfaction to be associated with the Bank during its initial period and I shall leave it with regret.

Eugene Meyer

The insurance companies of the nation are an important factor in its social security. Under the supervision of the state authorities, you invest the funds for which you are trustees. Your first duty is to your policyholders and your first consideration must be the safety of your capital and income. But you also have a social responsibility to promote the public interest whenever you can do so without jeopardizing the security of your investments. Surely, the promotion of better world conditions is a matter of real importance to those you represent.

A year and a half ago, we and our Allies concluded a second world war and turned to the construction of the peace. We approached that difficult task soberly, determined to pursue it untiringly and patiently. Certainly, we did not expect the achievement of peace to be an easy task.

Our generation has had broad experience in searching for conditions which will permit peace to exist. No one would be rash enough to believe that we know the complete answer. But we do know that the building of a stable society upon the weakened foundations which a war leaves in its wake must necessarily be a painstaking, continous and flexible process.

Idea of International Bank

Long before the Bretton Woods Conference in 1944, members of the United Nations began to prepare for the establishment of an

(Continued on page 3228)

*An address by Mr. Meyer before Annual Meeting of the Life Insurance Association of America, New York City, Dec. 13, 1946.

The Guaranteed Annual Wage

By IRA MOSHER*

Chairman, National Association of Manufacturers

Asserting principal reason for strained industrial relations is craving of workers for security, NAM spokesman says guaranteed annual wage has become an open issue. Holds employment regularity and stabilization is better form of workers security and that NAM is working out program which will benefit public as well as worker and employer. Urges employers and manufacturers to co-operate, and points out advantages of regularized employment. Insists plan is essential to maintain leadership of management, but admits its practical difficulties.

Even in his days of blackest despair, man has always managed to keep his chin up high enough to look ahead. Since the beginning of time he has looked ahead and gone ahead, step-by-step. Sometimes his progress has been slow, but war nor pestilence, famine nor flood ever stopped him dead. They never will, as long as there is a tomorrow.

Ira Mosher

In these dark days of strikes which black out the brightness of our nation's tomorrows, it is not hard to understand the pessimism of some Americans. The road ahead is studded with obstacles, but some were the Normandy beaches on D-Day. To the men who hit that beach, and the others—Salerno, Anzio, Tarawa, Saipan—characters like John L. Lewis hardly stack up as insurmountable obstacles to the future prosperity of our country.

Things may get a lot worse before they get [redacted] and some people may be tempted to throw up their hands and say to hell with it, what's the use. We, as a nation, cannot afford to sit idly by and let our national morale disintegrate in any such manner. Least of all can businessmen afford to allow themselves to be infected with an attitude of hopeless resignation, because they are the ones who must provide the leadership and the ingenuity to speed our passage through these troublesome days. By this time, I hope that businessmen have learned not to put the solution of their problems in the hands of politicians—party lines notwithstanding.

The wrong answers come up all too often when the ballot box and a return trip to Washington count more than economic integrity in deciding national issues. As businessmen, it is imperative that we eschew the way of politicians, and bend our full efforts to the business-like solutions of the problems confronting us. The productive capacity of American industry is the only force on this earth that can build the prosperous tomor-

(Continued on page 3236)

*An address by Mr. Mosher at the 51st Annual Congress of American Industry conducted by the National Association of Manufacturers, New York City, Dec. 5, 1946.

INDEX

Articles and News

Regular Features

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, December 19, 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, U. S. Possessions, Territories and Members of Pan-American Union, $26.00 per year; in Dominion of Canada, $29.00 per year. Other Countries, $33.00 per year.

Other Publications

Bank and Quotation Record—Monthly, $25.00 per year. (Foreign postage extra.)

Monthly Earnings Record — Monthly, $25.00 per year. (Foreign postage extra.)

Note—On account of the fluctuations in the rate of exchange, remittances for foreign subscriptions and advertisements must be made in New York funds.

Industrial Share Prices in 1947

By FRANK P. BRECKINRIDGE

Investment adviser cites bearish business factor of unbalanced inventory situation, and resultant injury to corporate cash position and profits; and stresses rigid costs. Hence he concludes Dow-Jones industrial share price will decline about 20% from current level before resumption of real upward trend.

F. P. Breckinridge

It is my best judgment that industrial stock market prices over the next six months will go lower; the Dow-Jones industrial average, now around 170, will likely slide to around 140 before there is any real resumption of an upward trend. (No one can predict amounts of figures exactly—these indicate only the general size and direction of the movement.) An intervening rally might be sharp and strong, but will not last longer than a brief period because the weight of economic forces are such that they will over-balance any short run optimism which may force prices up temporarily. Behind this conclusion is the general premise that stock prices depend upon profit expectations of corporations; and that because manufacturers' prime costs are high and rigid and inventories remain unbalanced, profit expectations are poor.

Profits the Crux

Optimism or pessimism among business men is determined mainly by the expectation of high or low profits six or twelve months or more in the future. Business men—not politicians as in 1937—will determine whether or not we

(Continued on page 3231)

Regulation Rapprochement

SEC elasticity a response to insistence of the public. Clamor for erasure of other than government by law now well recognized. Maloney Act a blot upon national escutcheon. NASD an invasion of our American way of life, an imposed institution in the nature of OPA which places ceilings upon spreads when government is lifting other ceilings. Should be abolished.

Spokesmen for the Securities and Exchange Commission have been indicating an elastic interpretation of the acts which it administers in order, as we believe, to influence the public at large and the securities field in particular, that henceforth, a rule of reason will be applied by this regulatory body.

What is behind it all?

As we see it, these antics are embraced in the adage "as the elections go, so goes the Supreme Court."

As the elections go, so also goes the Securities and Exchange Commission.

The mandate of the people last November has been definitely appraised as one directing a return to our American way of life, our democratic form of government, and to the removal of regulatory restraints inconsistent with that policy.

Recognizing this picture, our government as presently constituted, has "jumped the gun" and removed price ceilings generally besides erasing other restrictions.

As a recognition of the will of the people, this conduct is to the good although belated.

(Continued on page 3248)

Price Distortions and The Business Outlook

By Q. FORREST WALKER*
Economist, R. H. Macy & Co.

Economist maintains "boom-and-bust" predictions are not warranted by economically sound background. Hails cautious public psychology as reducing price distortions which may occur. Holding that nation is now in third phase of postwar adjustment, he predicts upward trend will end during first quarter of 1947, and thereafter dispersion will tend to narrow on down side.

In astrological lore, the number "seven" has had a certain mystical significance from the earliest times. It has enjoyed great popularity over the centuries. The seven grouping includes such widely separated subjects as the calendar week from the Book of Genesis, the seven wonders of the world, the seven ages of man, the seven deadly sins, and the Seven Keys to Baldpate. While astrology and sound forecasting are poles apart, it is a curious fact that the seventh year of each decade of our own economic history seems to have been a year of more or less serious economic disturbance. The economic historian will readily recall 1807, 1837, 1857, 1907 and 1937 as years of economic and financial upheaval, and less serious troubles occurred in the seventh year of other decades. Fortunately, the prospects for 1947 can be appraised without resort to any theory of seven year cycles or the mystical significance of the number "seven."


Q. Forrest Walker

In a thoughtful book on business fluctuations published in 1911, George C. Hull remarked: "People will buy or construct if you sell at prices low enough to satisfy them that they will gain by so doing. They will stop buying or constructing when prices are so high that they are satisfied they will lose by so doing. History shows that the check to manufacturing aind construction has always occurred when prices were abnormally high, prosperity greatest, and stocks of materials abnormally low."† He believed that prices dropped near the end of a boom when demand appeared greater than ever because the pressure to complete old, low-priced contracts forced prices up, and they could not be maintained when future contracts melted away.‡ While the present price upheaval is mostly a normal post-control development; some part of the increase has been caused by the pressure to complete old contracts. But we are here chiefly

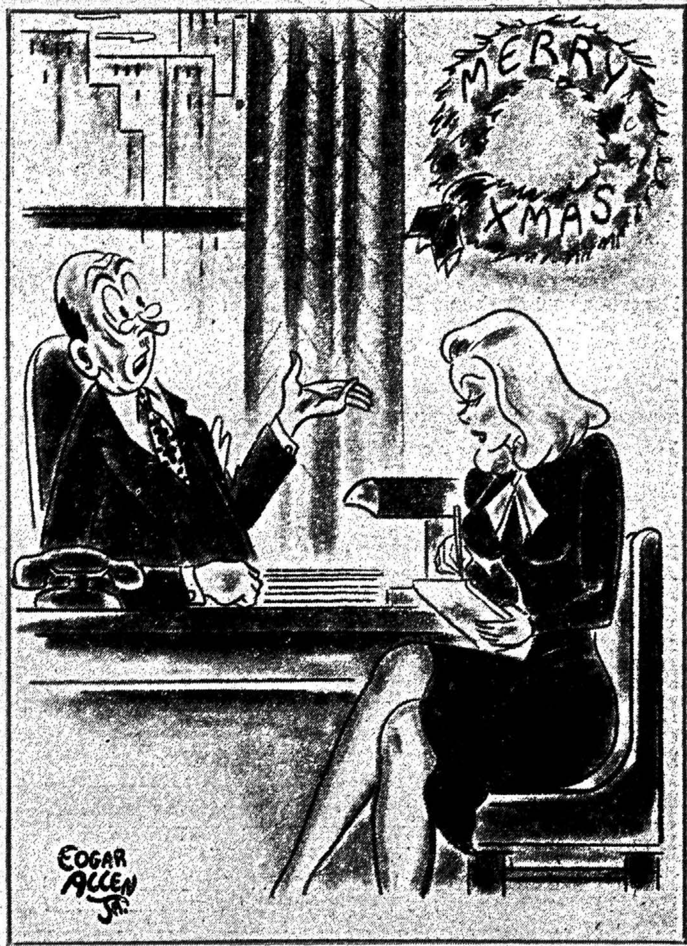
*An address by Dr. Walker before New York Chapter of American Statistical Association, Dec. 12, 1946.

†Geo. C. Hull: Industrial Depressions, pp. 27-28. Frederick A. Stokes Co., New York, 1911.

‡ Ibid. p. 117.

(Continued on page 3231)

BUSINESS BUZZ



"And close it with 'Wishing You a Merry Christmas,' then add a postscript and say, 'How about the five bucks you owe me?'"

Wall Street Bankers and Business Analysts Changing Views on Inevitability of Market Bust

By EDMOUR GERMAIN

Conviction growing certain basic conditions for maintenance of both production and employment at very high levels if absent a few months ago are present today. The encouraging signs, they say, include stiffening of public resistance to unreasonable demands by labor and a general improvement in domestic and international political situation. It is probably too early yet, they say, to be really positive about what certain straws in the wind may mean. Some feel confident another month may reveal more clearly actual shape of things to come. Many agree business picture has brightened considerably and, given wise direction, can continue to improve

Some at least of the bankers and stock market analysts on Wall Street who three months ago were inclined to look at the future through dark glasses believe today that business men generally, perhaps even including themselves, have been unduly influenced by fears of the inevitability of an economic collapse.

The change in their thinking is based upon a strong conviction that now certain basic conditions for the maintenance of both production and employment at very high levels exist which perhaps were not present before.

Last fall the world was disturbed by the open talk of war and the political situation: the prospect of another international clash of arms on top of a veritable tidal wave of labor unrest stimulated by faulty legislation and reconversion difficulties in the face of all kinds of governmental restrictions and priorities. The latter, it was thought, were too much for the economy to bear without faltering just a little. Production, they said, was what was needed to lift the economic system to full stature but evidences were all around that irresponsible men both in the very highest places and in the low stations as well and the following they were able to muster were tampering too much through strikes and impossible demands with the productive mechanism. The great flood of goods which people needed to

(Continued on page 3264)

Export-Import Bank and Repayment Problem

By WILLIAM McC. MARTIN, JR.*
Chairman, Export-Import Bank

Mr. Martin, in analyzing repayment problems in connection with loans made by Export-Import Bank, stresses importance of creating an import surplus for this country. Says we have choice of providing dollar loans and indefinitely postponing repayment or of encouraging increased flow of imports to enable foreign nations to both service and repay loans. Foresees a normal import surplus for U. S. and advocates tariff reductions for this purpose. Contends repayment problem lies in expansion of this country's foreign trade, which, although small in percentage, means difference between prosperity and depression.

Because of our experience with lend-lease during the war, American business is more conscious than it has ever been before of the importance of foreign trade. Unfortunately, however, foreign trade in time of war is largely artificial and bears little, if any, relation to the normal interchange of goods and services between nations. Likewise, we are hiding our heads in the sand if we do not recognize that foreign trade in the current postwar period is distinctly abnormal and must be appraised as such.


Wm. McC. Martin, Jr.

At the beginning of World War II, the United States was only moderately active in world trade and its industry was geared primarily to the domestic market. But in the early part of 1945, exports under lend-lease alone were leaving this country at the staggering rate of $16 billion per annum. At the same time that our industrial machine was thus expanding, the war was forcing the rest of the world to contract. Now, even with some degree of recovery occurring in the world, United States productive capacity is such that the entire world depends upon it. Therein lies our great responsibility and our great opportunity.

Without intending to sound like a blind optimist, it seems to me that the approach taken by the American Government to this responsibility, contrasted with the approach taken at the end of World War I, augurs well for the future. When the first World War ended, the United States withdrew as rapidly as possible from active participation in the affairs of the world. We insisted that our Allies

(Continued on page 3225)

*An address by Mr. Martin before the Buffalo Chamber of Commerce, Buffalo, N. Y., Dec. 11, 1946.

Observations . . . .

By A. WILFRED MAY

Deeds—Not Bricks and Mortar—Required by UN

Just before the first meeting of the General Assembly in the United States staggered to its conclusion in the wee hours before dawn last Monday morning, the UN got under the wire in choosing its permanent home. Without belittling its achievement in ending the squabbling over physical location it should be appreciated that acquisition of the New York City site—composed of the choice 16.8-acre area bounded by 42nd and 48th Streets, and First Avenue and the East River—imposes vast new responsibilities on the World Organization.


A. Wilfred May

During the coming five-year interim until it can move into its new quarters, UN must build a record of achievement greater than would have been necessary were the physical "plant" to be located in some suburban area or even in some lesser city. For with the World Capital in the heart of Manhattan, any eventual white-elephantism will be tremendously accentuated. In its prospective location not only would failure be highlighted visually by the sky-scraping buildings, but also emotionally by pressure from isolationist elements and other skeptics who would further press complaints over the necessary sacrifices, such as tax-exemption, born by the local citizenry.

Current Progress Not Correlated With Physical Plant

In any event, let us objectively consider and appraise the outlook, as warranted by the records just made by the Assembly and by the Council of Foreign Ministers. Very relevant indeed to the aforementioned "housing" question, and perhaps highly significant, is it that the more concrete current achievments were accomplished, not in Flushing's $3 million plant nor in acres of beautiful skyscrapers, but in a single relatively simple and small suite of rooms in the Waldorf Hotel.

"Operating Statement and Balance Sheet" of the General Assembly

Primarily it must be realized that the last-minute desperate rush of weary delegates (like legislators) to bring the session to a pre-

(Continued on page 3262)

Washington and You

(As interpreted by some of those behind the scene in the Nation's Capital)

Imminent 25% wage-boost-bouts between the heavyweights of industry and labor will find the Administration in a neutral corner. The White House won't repeat last year's political mistake of urging General Motors and Big Steel to be bound by fact-finding boards. Nor will the CIO get Presidential help or hindrance. Best bet right now is that the unions and industrial bosses will slug it out. But the labor boys will find their rough and tumble style cramped by the new set of rules Congress is about to write.

* * *

Government steersmen are confident there will be no big strikes while Congress fashions strike curbs. They foresee canny education programs, with both sides bidding for public approbation.

* * *

Closed shop probably will not be outlawed completely. Better guess is that Congress will erect safeguards about the right of the individual to work.

* * *

Wholesalers are eliminated by a new system of purchasing for ship service stores now being shaped by the Navy Department. The admirals are moulding a central banking and auditing system in New York City, after completion will buy all supplies for service stores direct from manufacturers. Savings to the Navy are estimated at 3 to 5%. But wholesalers argue this small end doesn't justify the means, are organizing to fight the bypass. They lament that if carried to its logical extreme, the innovation would destroy a large segment of American economy.

* * *

That barber shop, harmony, featuring Republican and Democratic voices since election, is going sour. By the time Congress convenes, it will be completely off key. Bi-partisan harmony is something to pledge and be pontifical about but not to expect. So don't be duped into picturing the President and Capitol Hill Republicans maintaining their honeymoon manners much longer. Recrimination will soon be claiming the headlines.

* * *

In the coming Congress both Republicans and Democrats will be jockeying for advantageous positions in the 1948 elections. No harmony will mark tax, budget-balancing, tariff and labor legislation. Political oppo-

(Continued on page 3255)

The Institutional Investor In the Dynamic Century

By DONALD B. WOODWARD*
Second Vice-President, Mutual Life Insurance Co. of N. Y.

Insurance executive points out security analysis as being confined mainly to present and short-term outlook and that technique for long-term investment analysis is lacking. Compares technique of life insurance companies in computing risks with that of investment technique in a dynamic environment, and lays down as among investment management essentials: (1) contemplation of rapid and continuous change; (2) an enlargement of scope of security analysis; (3) new standards, and (4) placing greater emphasis upon quality and competence of the management of concerns in which investments are made.

The most striking feature of investment is the time span. Borrowers and lenders alike enter into contracts which commit them for decades and even centuries into the future; buyers and sellers of equities make arrangements presumably endless. The long commitment may be explicit, as in the Great Northern and Southern Pacific issues this year, which stretched over half a century into the future. The long commitment may merely be implicit, as in the case of Treasury bills and certificates where the specific pieces of paper will shortly be extinguished, but others will rise Phoenix-like from their ashes. Or the length may be indefinite, as in perpetual bonds, non-callable preferreds, and common stocks, which may, like Tennyson's brook, run on forever to the end of time. Whatever the form, most investments are, in one way and another, commitments for long spans of time.


Donald B. Woodward

Of course, one or some holders can sell to others. But investors as a group cannot sell: as a group they can only hold to the end, whatever that end may be. And thus, while one single investor does not necessarily make the long-term commitment, investors as a group do exactly that. That they will or can sell to avoid adverse consequences is a delusion, and an extremely costly one.

Time, as Gladys Schmidt wrote, is "the most disintegrating of all our diseases,"[1] or, as Robert Warren said, is "the enemy of promise."[2] Or, if you don't like those sour interpretations, take what comfort you can from the ambiguous Aeschuylus, who called time "the great accomplisher,"—though he didn't say of what!

*A talk by Mr. Woodward to the 1946 Banking Forum, Philadelphia Chapter, American Institute of Banking, Philadelphia, Pa., Dec. 10, 1946.

1 "The Gates of Aulis."
2 "The Search for Financial Security."

(Continued on page 3226)

Jenks Kirkland Partner

PHILADELPHIA, PA.—Jenks, Kirkland & Co., 1421 Chestnut Street, members of the New York and Philadelphia Stock Exchanges, will admit Lawrance A. Brown to partnership as of January 1.

Dominick & Dominick Partnership Changes

Dominick & Dominick, 14 Wall Street, New York City, members of the New York Stock Exchange, and other leading Exchanges, will on January 1 admit Graham D. Mattison, Walter E. Conway, and Walter C. Winter to general partnership, and Richard B. Dominick to limited partnership in the firm. On the same date, Gayer G. Dominick, William C. Beach, and Edward K. Davis, general partners, will become limited partners.

Herzfeld & Stern Employes Vote 39-14 In Favor of CIO Union

The United Office and Professional Workers of America, CIO, last Friday won a State Labor Board election conducted among the employees of all classifications at Herzfeld & Stern, stock and bond brokers, of 30 Broad Street, 39-14, and negotiations are scheduled to commence soon looking toward a 40% increase in pay.

The union committee negotiating a contract with the East Brooklyn Savings Bank said that yesterday the bank had agreed, among other things, to a $10 a week raise for employees earning up to $50 a week, a 20% raise for those earning more than $50 a week, and a $35 minimum hiring salary.

Hopkins, Harbach Adds

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Arthur J. Burns and John W. Mears have been added to the staff of Hopkins, Harbach & Co., 609 South Grand Avenue.

Surveying the Post-Election Scene

By EMIL SCHRAM*

President, The New York Stock Exchange

Mr. Schram sees danger in sharp turn to right going too far as after World War I, and cautions desirable reforms should be retained. Says government regulation of business is here to stay and that securities regulation will continue, but criticizes Federal Reserve Board for destroying loan value of listed securities. Urges more self regulation in both security and commodity marketing, and points out agricultural price parity guarantees may destroy foreign markets for our products. Contends system of price regimentation puts farmer on defensive just as labor union favoritism is put on defensive. Warns rising prices threaten our prosperity.

No one can survey the national scene without knowing that there is a sharp turn to the right in political and economic thinking. After depression, reform and war, the people of the United States, in every walk of life, are in revolt against regulation and regimentation.

Emil Schram

I think it was Mr. Dooley who said that even the Supreme Court follows the election returns. Certainly anyone who has had occasion to go to Washington on business in recent weeks has found that many people there have changed their attitude since Nov. 5. The whole climate of Washington already is "different." Not only elected officials, but also appointed ones and even those in the Civil Service — defeated Democrats as well as victorious Republicans — are proceeding to heed the mandate at the polls. That shows that America is still American!

The danger, of course, is that the pendulum will swing too far to the right as it did after World War I and just as it swung too far to the left after 1929. The ideal process now would be to keep the good reforms and discard the bad ones. Many of the reforms of the 1930s were long overdue; it does not make sense to repeal laws which eventually and inevitably will be reenacted. The clock of progress cannot be turned back.

On the other hand, there should be some change in the attitude of administrators. And some change is already discernible. Cooperation with legitimate, honest enterprise should replace the kind of studied hostility and superciliousness which were so apparent in certain quarters in the past. The section of the securities industry which I represent already has learned to live happily with the Securities and Exchange Commission and Securities Exchange Act of 1934. The Chairman of the SEC has indicated that the Commission is prepared to initiate refinements in the law now that we have had time to recognize a few imperfections. This is not

(Continued on page 3245)

*Part of address of Mr. Schram at the annual dinner of the Houston Chamber of Commerce, Houston, Texas, Dec. 17, 1946.

Full Employment Act and The Economic Future

By EDWIN G. NOURSE*

Chairman, Council of Economic Advisers

Head of new Federal Agency asserts Employment Act of 1946 does not propose simple panacea or trick remedy for business ills. Holds money manipulation to maintain employment is not intended and that statute is merely a broad enabling act for systematic study of the nation's business. Compares work of Council with corporation top management planning and coordination, and points out Congress declared in Act that it is government's continuing policy and responsibility to maintain high production. Says law supplements and aids private business and assures it a more favorable environment. Warns business against its own restrictive controls.

The time at my disposal is quite brief. Fortunately, what I have to say can be boiled down to three rather simple points. But these three points are in my judgment absolutely essential if you, as representative of American business, are to have a correct understanding of the nature and meaning of the Employment Act of 1946 and are to take full advantage of it for the future benefit of American industry.

Dr. Edwin G. Nourse

Managerial Sense, Not Monetary Manipulation

The first point I want to make about this act is that it does not propose any simple panacea for business ills. It offers no trick remedy which the Council of Economic Advisers is supposed to work out by a formula and put in the hands of the Chief Executive for his administrative application. During the process of legislative consideration and redrafting, the Congress definitely turned its back upon any single type of remedy and specifically upon money magic as a means of getting out of the artificial conditions of wartime business on to a sustained basis of efficient and prosperous peacetime operation. It recognized clearly that the nation's business is a tremendously complicated process, in whose direction many agencies, public and private, have essential parts. It recognized, too, that each of these agencies must have a great deal of individual independence to adapt its operations flexibly to changing conditions and particular needs. At the same time the Congress recognized that, if this loose-

(Continued on page 3232)

*An address by Dr. Nourse before 51st Congress of Industry conducted by the National Association of Manufacturers, New York City, Dec. 6, 1946.

The British Token Import Plan

By JOHN C. BORTON
Director, Commodities Branch
Office of International Trade, Department of Commerce

Commerce Department official describes arrangement whereby British Government permits American manufacturers to export to Britian certain commodities up to 20% of the average amount of such products in the three years prior to war. Says number of commodities have been expanding and plan is only part of over-all effort of Office of International Trade to re-establish normal commercial relations in all areas.

Millions of dollars in trade opportunities have been opened for international traders with the establishment of the British Token Import Plan through an agreement arranged by the Office of International Trade, Department of Commerce, with the British Board of Trade. Shortly after the termination of the war the OIT, recognizing the importance of quickly re-establishing trade channels with the United Kingdom, especially of branded trade goods, worked out the plan in cooperation with British officials on a basis which will permit traders to export 20% of their average annual prewar exports for certain base years.

John C. Borton

The Office of International Trade anticipates that when U. S. traders fully understand the details of the agreement, they will increasingly seek to take advantage of this opportunity to make their products available to British consumers. One trader who quickly realized the value of this reopened trade commented: "The British Token Import Plan means the very existence of my company." He estimated that potential profits to his business would eventually exceed $500,000.

The British Token Import Plan permits the reopening of established trade connections in the United Kingdom. The Plan has been extended, so far, to cover 117 products which range from gar-

(Continued on page 3238)

The Enslavement of Labor

By MATTHEW WOLL*
Vice-President, American Federation of Labor

Prominent labor leader attacks Russian communism as enslavement of labor for benefit of self-appointed minority of bureaucrats, and cites examples of building "war centers" by forced labor. Points out totalitarian state is complete antithesis of Christian democracy and accuses communists of instigating a state of terror here "under guise of abolishing tyranny of private capitalist property." Pledges AFL to support of democracy and lays distressing failure of world peace to absence of International Bill of Rights.

It is now approximately 50 years since the great Papel Encyclical was presented to the world by Pope Leo XIII on the subject of capital and labor. This Pronouncement made clear that labor must never be regarded as a mere chattel or article of commerce, but that the human worth and dignity of the laborer himself must always be borne in mind and his vital interest safeguarded. At the same time, the rights of property and of individual initiative are not overlooked.

Matthew Woll

Despite the time which has intervened, the profound wisdom of the observations of the Holy Father continue to provide a significant frame for the discussion of current problems.

At no time in the lives of any of us have problems confronting both Church and Labor been more perplexing and the ways strewn with more hidden pitfalls than at present. The long years of struggle in the Old World that followed the first World War, and now the Second World War, with their ever-present sense of insecurity, have undermined the courage and initiative of altogether too many of the peoples of the world.

There can be no greater disaster to any nation than for the people to lose confidence in themselves. This is the great danger that confronts the people of the world today. It is then that false prophets arise and the heyday of the

(Continued on page 3230)

*An address of Mr. Woll before Knights of Columbus Forum, Brooklyn, N. Y., Dec. 3, 1946.

Harold Smith Resigns As V.-P. of World Bank

(Special to the "Chronicle")

WASHINGTON, Dec. 18.—The World Bank Executive Directors today announced the resignation of Harold D. Smith, Vice-President. An official explained that Mr. Smith wanted to give the next president of the institution a free hand in the selection of his immediate assistants.

Harold D. Smith

Whether Mr. Smith, if requested by the incoming President, would remain is not known. It will be recalled that when he took his present post at the World Bank, he was quoted in the press as stating in effect that the salary was too good to pass up.

Sources in an excellent position to know indicate, however, that Mr. Smith has other things in mind and will not remain with the World Bank after a new president takes over. Smith assumed the Vice-Presidency at Meyer's request and his resignation is linked with Meyer's resignation. It is understood that Mr. Smith intended to offer his resignation earlier, but that Mr. Meyers urged him to postpone insistence on its acceptance until now.

Henry Oltman Dead

Henry Herbert Oltman, member of the New York Stock Exchange, died at the age of 74 after a brief illness. Mr. Oltman had been a member of the Exchange since April 12, 1900, succeeding to the seat held by his father John B. Oltman, who died on Feb. 15, 1900. In 1934 he became a partner in the firm of Chisholm and Chapman and when this firm was merged with Francis I. du Pont & Co., he became a member of the latter. He resigned from the du Pont company in 1942 but kept his seat on the Exchange.

Threat to Independent Business

By WENDELL BERGE*
Assistant Attorney General of the United States

Asserting people are not aroused to dangers threatening freedom of economic opportunity, antitrust enforcement official contends concentration of economic power is greatest in our history, and unless removed, independent business will decrease. Cites as monopoly gains during war the reduction of small businesses, and government restrictions on competition. Says Dept. of Justice aims to restore free competition but is handicapped by small appropriations. This, he characterizes as "false economy." Attacks mergers and consolidations as influenced by profit incentives of investment bankers and other financial interests.

I begin tonight by asking the blunt question: Do the American people really want the antitrust laws enforced? Do they care enough about free competitive enterprise to make the all-out fight required to save it? Or is all the talk about economic freedom just lip-service paid by orators to a symbol which has no reality in our economic life; talk in which they indulge to whip up public feeling for some selfish purpose?

Wendell Berge

I do not think it is possible tonight to give the final answers to these questions. The answers will unfold with the development of events in the next few years. But there are signs that the people are not aroused to the danger that threatens the freedom of economic opportunity in this country. It is my personal belief that once alert to the crisis, the American people will demand effective governmental action against those monopolistic forces that threaten the destruction of independent business opportunity. But, in my opinion, the issues and the facts have not been presented with sufficient directness and clarity. They have often been confused with politics and with emotion.

Now is the time to present to the American people a graphic and effective picture of two facts: First, that the concentration of economic power in this country is increasing above any previous crest of monopoly in our history; second, that the decrease of independent business will continue unless the causes of concentration are removed and the power of monopoly is broken. As it stands at the present moment, the American people do not have control of their economic destiny and as time goes on they may lose their freedom of opportunity, if the trend to concentration is not checked. The people's reaction to these facts will determine the path we are to take—whether we shall go the way of monopoly towards scarcity, poverty, and the loss of democratic political institutions, or whether we shall secure for ourselves and for future generations genuine economic freedom. The time has come when decision must be made.

Monopoly Problem More Serious

The monopoly problem is today more serious than at any time since the passage of the Sherman Act. If monopoly power follows its traditional course, we can expect higher prices, limitations on

(Continued on page 3250)

*An address by Mr. Berge before Chicago Chapter, New Council of American Business, Chicago, Ill., Dec. 11, 1946.

Public Utility Securities

American Light and Traction

American Light & Traction is a sub-holding company in the United Light & Railways system, controlling about 40% of system assets. Its subsidiaries are principally in the gas business, with a relatively small proportion of electric and miscellaneous sales. Natural gas is obtained from southern fields by purchase from Panhandle Eastern Pipe Line, and manufactured gas is distributed in Milwaukee. The principal subsidiary is Michigan Consolidated Gas Co. servicing the Detroit area; others are Milwaukee Gas Light, Madison Gas & Electric, Milwaukee Solvay Coke and a new company, Michigan-Wisconsin Pipe Line Co.

Michigan Consolidated Gas recently announced in full page advertisements that the Federal Power Commission has granted authority to Michigan-Wisconsin Pipe Line to construct a natural gas pipe line from Texas to Michigan and Wisconsin. Customers in the Detroit district, according to the advertisement, will have available, on completion of the pipe line by 1949, some three times the amount of gas that was available in 1945. In the interim, Michigan Consolidated Gas will spend $2,000,000 to enlarge its stand-by manufacturing plant and to build a new liquid petroleum plant. Construction of the pipe line will be rushed to completion as fast as materials can be secured, after financing plans have been approved by regulatory authorities, including the SEC.

The question of building a pipe-line has been before the FPC and SEC for some time, and it seems probable that the recent coal strike (which resulted in leasing of the Big Inch and Little Inch lines to Tennessee Gas) may have had something to do with expediting the FPC decision by a three-to-two vote. Whether the SEC will also prove amenable remains uncertain. American Light & Traction has been slated for dissolution for some time past, and the commission has appeared rather reluctant to approve the pipe-line financing because of the approaching dissolution of the top company. However, formation of the new pipe-line company provides a vehicle for financing the new line.

Doubtless the new company will, in due course, finance the estimated $84,000,000 cost of the project by raising a substantial amount of funds by the sale of bonds and preferred stock. It appears likely, however, that common stock will be held within the system and that American Light & Traction may use its cash assets to provide the required equity money. At the end of 1945 the top company had over $9,000,000 net current assets (the consolidated balance sheet showed over $22,000,000). Current assets were, of course, largely in cash and government bonds. The company owns a block of 1,289,200 shares of Detroit Edison (about one-fifth of that company's stock) which at the recent price levels would be worth an estimated $30,000,000 after allowance for sales "shrinkage." Hence, the parent company might have about $39,000,000 available cash after sale of the Edison stock. However, it would have to provide for retiring its own non-callable preferred stock.

This step has also posed a problem over the last year or so, and has been debated at considerable length in SEC hearings and staff findings. While the stock is non-callable it is theoretically redeemable at par in liquidation; but since dissolution will be involuntary (due to the SEC "death sentence") the issue as to whether stockholders are entitled to a premium must be settled by the SEC and the courts. Allied Chemical, a large holder of the preferred, some time ago suggested that stockholders were entitled to $40 a share instead of $25, on the ground that in a free investment market the stock would sell on about a 3¾% basis. The SEC staff recommended a compromise figure of 33, but this has not been ratified by the commission itself, which is still pondering the question.

To retire the preferred at par would require $13,400,000, at 33 $17,700,000 and at 40 $21,400,000. This would leave about $18 to $26 million to invest in the pipe-line company.

Judging from the history of other pipe-line ventures such as Panhandle Eastern and Tennessee Gas, the new company should prove successful, since it will enjoy an assured market. The FTC in the past has usually allowed about 6-6½% to be earned on investment although with the present downward trend in rates a range of 5½-6½% seems logical. Assuming that the pipe-line enterprise is financed 50% by 3% bonds, 25% by 4% preferred stock, and 25% by equity money, the return on the latter might work out at 12-16%; to allow for contingencies these figures might be reduced to 10-15%. How much can American Light & Traction earn (per share on its own common stock) from the new investment? On the basis of our assumptions as above, the figure would appear to lie within the range of 65¢-$1.40. The latest interim earnings were $1.60; deducting dividend income from Detroit Edison and crediting the preferred dividend (since the preferred is being retired) would adjust the figure to $1.33. Addition of the estimated pipe-line earnings would raise the figure to around $2-$2.75. This estimate does not adjust for possible savings in parent company overhead, possible increases in subsidiary taxes when reported on an individual company basis, or similar refinements.

Louis S. Colwell Dead

Louis S. Colwell, Montreal stockbroker, died after a long illness, at the age of 73. Mr. Colwell was graduated from Syracuse University and later was a financial reporter for The Syracuse Evening Herald. In 1902 he moved to Montreal and subsequently was connected with several financial houses there, most recently with A. M. Kidder & Co.

Hartman, Smith & Mann Forming in New York City

Hartman, Smith & Mann, Inc., is being formed with offices at 19 Rector Street, New York City, to engage in a securities business. Officers are Herbert D. Smith, President and Treasurer, and Thomas W. Mann, Vice-President and Secretary. Mr. Smith was previously associated with Gamwell & Co. Mr. Mann was with Hageman Corporation.

George E. Brown Dead

George Estabrook Brown, member of the New York Stock Exchange, and formerly a general partner in Jenks, Kirkland & Co., died at his home after six months of failing health. He was 54 years of age.

Raymond A. Kupfer Opens

DETROIT, MICH.—Raymond A. Kupfer is engaging in a securities business from offices at 13750 Dexter. He was formerly with Straus & Blosser and Crouse & Co.

Monetary Fund Announces Initial Par Values of Member Currencies

M. Gutt, in press conference, issues detailed explanatory statement, citing unprecedented features of Fund's operations beginning March 1. Denying that Fund has disagreed with proposals of any member, he states that initial par values are in all cases those proposed by them, and based on existing exchange rates.

(Special to the "Chronicle")

WASHINGTON, Dec. 18.—In a long-awaited announcement the International Monetary Fund today published the list of initial par values of members' currencies, as required by the Fund's Articles of Agreement. Nine countries have requested further time to fix their parities, but in all other cases the Fund has accepted the parities proposed by the members.


Camille Gutt

Under the Bretton Woods Agreement on the Fund, members which suffered enemy occupation during the war are entitled to postpone determination of their par values for a period, which is not defined in the Articles of Agreement. The nine countries mentioned above as having postponed decision on this question include six war victims: China, Greece, Poland, Yugoslavia French Indo-China and the Netherland Indies. Other once-enemy-occupied countries like Denmark, Holland, Belgium, Luxemburg and Norway are not on this list of exceptions.

Delay by Latin-American Countries

On the other hand, three Latin-American countries are among those missing from the list of parities announced today. These are Brazil, Uruguay and the Do-

(Continued on page 3262)

The American Plan for German Bank Reform

By HERBERT M. BRATTER

Pointing out present excess of currency and deposits, which are backed merely by defaulted debt of defunct Nazi Government, correspondent presents outline of bank reform plans proposed by U. S. Military Government. He includes critical comments of Reichsbank official.

From the financial standpoint, military government in Germany is a receivership for a bankrupt nation. The direct debt of the defunct central Nazi government, now naturally in complete default, totals some 400 billion Reichsmarks. All but a minor fraction of this debt is held by banks and financial institutions. The Nazis used the "silent" system of financing the war. There were no war bond campaigns or national effort to sell to individuals. The financial institutions were the buyers. The inflationary effects of the war may be seen by a comparison with the Reich debt in 1935, 15 billion Reichsmarks. During the same span of years the currency in circulation mounted from 5 billions in 1935 to about 60 billions this year, while net bank deposits increased from 30 billions to 150 billions.


Herbert M. Bratter

The problem today is not merely one of an increased supply of instruments of purchasing power, but also of substantially reduced supply and production of goods and services to be bought therewith. From 1936 to date the national income of the four-zonal area of Germany declined from some 70 billion RM to perhaps 25 or 30 billions. In view of the four-power level-of-industry plan for Germany, the national income may not exceed 50 billion RM by 1950. The disparity between actual and potential production on the one hand and debt, deposits and currency on the other is extreme. Germany has all the war-inflation elements apparent in the U. S., without the production capacity to put real values back of its inflated debt.

Germany's national wealth, that is the legal market value of real assets in the country, has declined from about 400 billion RM in 1938 to about 225 billions now. War damage to property is estimated to aggregate at least 175 billions, not counting the cost of reparations, which is very substantial. In Berlin alone, it is estimated repair of war damage will

(Continued on page 3254)

News dispatches from Germany this month have reported the adoption of American banking proposals in the three Laender of the U. S. zone. This article was prepared by Mr. Bratter during a recent visit to Germany.—Editor.

Essentials of British Export Policy

By SIR STAFFORD CRIPPS*

President of Board of Trade of Great Britain

High ranking British trade official acknowledges increase in British exports will not solve balance of payments problems unless fully manufactured goods are exported and unless Great Britain can obtain the kind of exchange required to meet foreign commitments. Says only 14% of British exports go to U. S. and Canada, from which 50% of imports come, and loans from these countries are rapidly being exhausted. Defends exports at expense of home consumption on ground Britain is now debtor nation, and urges export of luxury items directed to nations whose exchange is required. Sees need of greater home production.

It is perhaps hardly necessary for me in speaking to an audience of intelligent industrialists to recapitulate the very obvious arguments in favor of a vigorous export policy for this country today, but I believe it will enable me the more easily to emphasize the points I particularly want to bring out if you will allow me shortly to lay before you the whole story.

Sir Stafford Cripps

The attitude of the government and the nation in this matter is, of course, bound to be somewhat different to that of the individual manufacture. He is primarily concerned with running his business at a reasonable profit and expanding wherever he sees the opportunity of more profit.

The government, on the other hand, are concerned primarily with the national balance sheet and not with the profitability of individual manufacturing concerns, and that is why it may sometimes seem to the individual that action by the government is not consistent with his particular interest in the matter of exports. Indeed the compulsions placed upon the government by the wider considerations must of necessity be contrary at times to the desires of individual producers. That is why I welcome this opportunity to put before you the overall picture as we in the government see it today.

Exports have no national purpose or virtue except in so far as they make possible the acquisition of the foreign exchange which is necessary to enable us to maintain the flow of imports essential for the standard of life that we aim at achieving.

Those imports can be placed in three broad categories. The foodstuffs, raw materials and consumer goods that we require for our own home consumption; the raw materials we require for our exports; and the capital goods we need to equip our industries at home and to export for use in other countries.

Export Fully Manufactured Gooods

It will be obvious that the more we export the greater will be the need for imports of raw materials under the second category. That points to the first principle that we should adopt in our export policy. In general we should export fully manufactured goods in preference to partly manufactured goods, and we should prefer as exports those goods in which the raw material values are as low as possible compared to the value of work done on that raw material. In other words, the more brains and craftsmanship we can export the better for our balance of payment position and thus the higher our standard of living.

The first major question is how much do we need to export? At the present moment we are importing rather more than 70% of what we were importing before the war. With our existing level of exports round about 110% by volume of pre-war exports, we are still well down on our balance of payments. Without going into a long explanation or calculation, I may repeat the target figure of 175% of pre-war exports in volume as that necessary under post-war circumstances to maintain the equivalent of our home-retained pre-war imports. This is on the assumption that any increases of price roughly balance out overall between imports and exports. This would give us roughly the same overall standard of living as pre-war, though the division of that standard as between different sections of the population will not be the same as pre-war, and therefore the

(Continued on page 3239)

*An address by Sir Stafford at the Federation of British Industries' Export Conference, Westminster, Eng., Nov. 27, 1946.

Revokes Suspension

The suspension imposed Nov. 15 on M. S. Wien & Co., effective Dec. 16, has been revoked by the Securities and Exchange Commission. The Commission said it had acted after being assured that Joseph J. Lann is no longer with the brokerage firm. The registration was revoked for 30 days "without prejudice" and the company was allowed to reapply after it complied with the SEC order.

Amer. Officials Plead For Support of New Trade Agreements

ITO charter not expected to cause Congressional trouble, but duty reduction plans are exciting opposition.

(Special to the "Chronicle")

WASHINGTON, Dec. 17.—Under State Department auspices Tuesday, representatives of various trade associations and pressure groups today heard Clair Wilcox, who had just returned to Washington from London, where he headed the American Delegation to the Preparatory Committee for an ITO, explains the work of that international gathering and plead for support. At the same meeting Winthrop G. Brown told about the preparations being made for trade agreement negotiations in coming months, looking toward lowering of tariffs and removal of quantitative restrictions.

Clair Wilcox

Officials expect no difficulty in Congress over the charter for an ITO which won't come before the National Legislature before 1948. But opposition to proposed duty reductions and criticism of exceptions to abolition of quantitative trade restrictions and exchange controls is expected in 1947.

Tuesday's meeting with private groups follows the pattern set by the State Department during the campaign for the Bretton Woods program and the UK loan. It is a sign that the Administration at least was earnest when it advanced its trade proposals at London this Fall.

Jerome Melniker Admits

Samuel M. Pearson will become a partner in Jerome Melniker & Co., 61 Broadway, New York City, members of the New York Stock Exchange, on January 1.

A Wage Policy for 1947 Prepared For CIO

An analysis prepared for the Congress of Industrial Organizations by Robert R. Nathan Associates, Inc., stresses the need of wage increases for the benefit of workers and the whole economy and contends that an increase of 23% in wage rates is required to bring real weekly earnings back to January 1945 level.

The following is the text of "National Wage Policy for 1947," prepared for the Congress of Industrial Organizations under the authorship of Robert R. Nathan and Oscar Gass by the Robert R. Nathan Associates, Inc., Washington, D. C.:

1. Recent economic tendencies have brought uncertainty and instability, widespread fear of business losses, and the prospect of a sharp decline in employment sometime during 1947.

Robert R. Nathan

Prosperity far beyond anything ever achieved previously in peacetime seems to be prevalent today. In terms of the number of workers on the job, the volume of goods and services being produced, retail sales and the level of consumption, exports and imports, and other measures of economic activity, we are in the midst of unparalleled peacetime prosperity.

Yet there is a growing underlying sense of uncertainty and even of insecurity. Seldom have we had such a combination of good business and bad psychology. The severe break in the stock market which has reduced the value of the securities listed on the New York Stock Exchange by about $19 billion, or nearly one-fourth, is only one manifestation of the underlying uncertainty.

Despite the record level of current profits, the more far-sighted members of the business community sense something unsound in the situation. Probably it is the very high level of profits and the realization that they cannot long persist which is at the base of this pessimism. Even the diehards and ultra-conservatives in business and financial circles are uneasy and reflect this uneasiness in their references to the present so-called "profitless prosperity." It is sheer nonsense to speak of "profitless prosperity" or "spotty profits" in the face of the current returns of business. True, profits vary considerably from industry to industry—and among firms in a single industry—but there are few exceptions to the generaliza-

(Continued on page 3246)

Dealer-Broker Investment Recommendations and Literature

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

Analysis—Service to dealers—R. W. Pressprich & Co., 68 William Street, New York 5, N. Y.

Automotive Industry—Summary and evaluation in **Fortnightly Market and Business Survey**—E. F. Hutton & Co., 61 Broadway, New York 6, N. Y.

Guide to the Perplexed—a challenge to the barrage of pessimistic statements—bulletin with a list of suggested stocks for income and capital appreciation—Strauss Bros., 32 Broadway, New York 4, N. Y.

Handbook of Public Revenue Bonds—Covers 33 major projects having nearly $500 billions in bonds outstanding—in loose-leaf form, with supplements planned for principal new projects and major refunding operations. — Tripp & Co., Inc., 40 Wall Street, New York 5, N. Y.

Investment Opportunities in the Gas Industry — Study — Fred W. Fairman & Co., 208 South La Salle Street, Chicago 4, Ill.

Petroleum Industry's Outlook for 1947 — Study — Delafield & Delafield, 14 Wall Street, New York 5, N. Y.

Pipe Line Wholesalers—Report—Hayden, Stone & Co., 25 Broad Street, New York 4, N. Y.

Public Utility Holding Companies—Current developments—H. Hentz & Co., 60 Beaver Street, New York 4, N. Y.

Also available is a table of **Book Values for 50 securities**, and the fortnightly investment letter containing a memorandum on **Railroad Obligations** and some attractive **Convertible Preferred Stocks**.

Railroads—Factual assessment of the problems facing the industry—A d d r e s s Department F-2, Merrill Lynch, Pierce, Fenner & Beane, 70 Pine Street, New York 5, N. Y.

Silver Picture—Memorandum on the current situation—Bache & Co., 36 Wall Street, New York 6, N. Y.

Transactions in Marketable Securities of the United States Government—Circular containing information and instructions relative to transactions with the Federal Reserve Bank—Federal Reserve Bank of New York, 33 Liberty Street, New York City.

Abbott Laboratories — Memorandum—Penington, Colket & Co., 70 Pine Street, New York 5, N. Y.

Also available is an analysis of **Burdine's Inc.; Heyden Chemical Corp.;** and **Sun Chemical Company.**

Admiral Corporation — Brief memorandum—Dempsey & Company, 135 South La Salle Street, Chicago 3, Ill.

Allied Paper Mills—Card memorandum—for dealers only—Moreland & Co., Penobscot Building, Detroit 26, Mich.

Argo Oil Corporation—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; Purolator Products; Upson Corp.; Alabama Mills; Diebold, Inc.**

Automatic Fire Alarm—memorandum — Mitchell & Company, 120 Broadway, New York 5, N. Y.

Also available is a memorandum on **Standard Screw.**

Bausch & Lomb—Current developments in the current issue of **The Adams Journal**—Adams & Co., 231 South La Salle Street, Chicago 4, Ill.

Boston & Maine Railroad — Circular — Walter J. Connolly & Co., 24 Federal Street, Boston 10, Mass.

Buda Co. — Memorandum — Luckhurst & Co., Inc., 40 Exchange Place, New York 5, N. Y.

Central Hanover Bank & Trust Company — bulletin—Laird, Bissell & Meeds, 120 Broadway, New York 5, N. Y.

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.

Chicago North Shore & Milwaukee Railway Co.—Brief memorandum on outlook—Brailsford & Co., 208 South La Salle Street, Chicago 4, Ill.

Collins Radio Company—circular—Adams & Co., 231 South La Salle Street, Chicago 4, Ill.

Consolidated Vultee Aircraft Corp.—Study—Penington, Colket & Co., 70 Pine Street, New York 5, N. Y.

Delaware Lackawanna & Western — Lackawanna RR NJ Division First Mortgage "A" 4s—memorandum indicating attractive yield—in the current issue of **"Railroad and Other Quotations"**—B. W. Pizzini & Co., Inc., 25 Broad Street, New York 4, N. Y.

A. DePinna Co.—memorandum Herrick, Waddell & Co., Inc., 55 Liberty Street, New York 5, N. Y.

Ekco Products Co.—Detailed Study—Hayden, Stone & Co., 25 Broad Street, New York 4, N. Y.

Also available is a detailed memorandum on **National Cash Register Co.**

Engineers Public Service — Memorandum—Vilas & Hickey, 49 Wall Street, New York 5, N. Y.

Also available is a discussion of **New Haven Possibilities.**

Froedtert Grain & Malting Co.—Memorandum—in **"Business and Financial Digest"**—Loewi & Co., 225 East Mason Street, Milwaukee 2, Wis.

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

Also available are memoranda on **Northern Indiana Public Service Co.** and **Philip Carey Manufacturing Co.**

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

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

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

International Cellucotton Products Co. — Analysis — New York Hanseatic Corporation — 120 Broadway, New York 5, N. Y.

Maryland Casualty Company—Analysis of situation—Edward D. Jones & Co., 300 North Fourth Street, St. Louis 2, Mo.

Northern Indiana Public Service Company—Detailed study of situation—Bear, Stearns & Co., 1 Wall Street, New York 5, N. Y.

Northern Indiana Public Service Co.—study—Doyle, O'Connor & Co., 135 South La Salle Street, Chicago 3, Ill.

Northwest Utilities—Analysis—Ira Haupt & Co., 111 Broadway, New York 6, N. Y.

Osgood Company — circular—Seligman, Lubetkin & Co., Inc., 41 Broad Street, New York 4, N. Y.

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

Public Service Company of Indiana, Inc. — analysis—First Boston Corporation, 100 Broadway, New York 5, N. Y.

Ralston Steel Car Co. — Circular — Lerner & Co., 10 Post Office Square, Boston 9, Mass.

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.

Showers Brothers Co.—Analysis—Caswell & Co., 120 South La Salle Street, Chicago 3, Ill.

Decentralization of Industry

By ROGER W. BABSON

Mr. Babson sees decentralization as solution of labor and materials shortages, bottlenecks and other difficulties of industry. Holds plants in small places are rewarded by lower costs and that environment, living conditions, and morale of workers are better. Says small cities also offer attraction for management and their families.

We find ourselves today at a point where the more we expand an industry the greater become our difficulties. A small industry, if expanded, will probably run into labor supply difficulties. A larger industry, already beset by a shortage of skilled workers, bottlenecks and lack of materials, finds these odds nearly insurmountable when endeavoring to expand. The trend is turning toward a very workable and perhaps the only solution—*decentralization!*

Roger W. Babson

When we think of decentralization of industry we visualize small cities which have as prerequisities a good source of industrial power, low living costs and healthier living conditions for the worker. The majority of the residents probably would be homeowners. Good shipping facilities, suitable factory buildings or sites, low taxes, a population of sufficient size and ability to supply labor demands along with reasonable access to raw materials combine to make thousands of small communities ideal factory locations.

Lower Costs for Business

The large or small industry which locates some of its plants in small places is almost sure to be rewarded by lower costs. Such businesses as the clothing industries traditionally employ women for expert needlework. There are countless small towns whose women are willing to work. But they are often unwilling to move from their home towns or even to commute. Firms which have gone into these towns have found in many cases not only a new labor supply but new plant facilities for rent—something more than scarce in big cities today. Lower costs of upkeep and repairs have been an added inducement. Easy access to raw materials can be inviting factors. Some of the biggest packers in the country have located poultry dressing plants in the broiler areas, thus causing savings in time and trans-

(Continued on page 3212)

ABA Calls for Abolition Of Regulation W

Carl M. Flora, Chairman of ABA Consumer Credit Committee, says terms of order restricting consumer credit work hardship on low income groups. Holds banks, by sound principles of financing consumer credits, could avoid its inflationary aspect.

Abolition of Regulation W, which the Board of Governors of the Federal Reserve System imposed on the use of consumer credit in 1941 as a war measure, was called for by the Consumer Credit Committee of the American Bankers Association at a press interview held by Carl M. Flora, Chairman of the Committee on Dec. 13. Mr. Flora is Vice-President of the First Wisconsin National Bank in Milwaukee, Wis. The committee held a two-day meeting last week at The Drake, Chicago.

Carl M. Flora

"The Consumer Credit Committee has been studying this regulation ever since it was inaugurated," Mr. Flora said, "and while we supported it during time of war and after the war, we now think it is outmoded." He pointed out that the terms imposed by this regulation on the use of consumer credit compel monthly payments on the part of buyers of such a size that many people, particularly veterans and familes in the lower and middle income groups, are prevented from buying necessary things, such as automobiles, refrigerators, washing machines, and other appliances.

In a statement announcing the action of the Consumer Credit Committee, Mr. Flora said, "At its annual convention in Chicago last September, the American Bankers Association called attention to the 'unwise, unnecessary, and expensive wartime controls that add to the consumer cost of the whole nation,' and recommended that Congress give 'immediate consideration to the proper timing for the elimination of all war controls and activities that hamper the functioning of the private en-

(Continued on page 3245)

Attacks Federal Reserve Credit And Margin Controls

Senator Styles Bridges asserts new provisions of Regulation W relating to instalment sales discriminate against low income groups. Holds prohibition against margin trading in listed stocks is also discriminatory and if allowed to stand will produce a serious disorder in the market.

In a statement released on Dec. 17, Senator Styles Bridges (R.-N.H.) vigorously denounced the continuation of instalment buying restrictions by the Federal Reserve Board, while removing controls on all charge accounts, and he also attacked the 100% margin regulation on listed stocks as hampering reconversion and favoring unlisted securities speculation. According to Sen. Bridges' statement:

Sen. Styles Bridges

Effective Dec. 1, 1946 the Federal Reserve Board removed controls on all charge accounts and removed instalment buying prohibitions—on all but twelve major groups of durable goods. The rank and file consumer, however, first got the impression from the publicity given to the Federal Reserve Board directive that the goods he is most interested in purchasing were to be available again on the instalment plan. Now the average citizens finds that such is not the case at all. The products which have been so scarce in recent years, and therefore are so badly needed in the average homes of American citizens, cannot be purchased on the instalment plan without the payment of prohibitive deposits and large weekly payments. The average wage earner and consumer can only, for example, purchase by instalments such articles as refrigerators, washing machines, furniture, radios and other similar home necessities, by the payment of deposits still being regulated under Regulation "W." Persons who use charge accounts find that these articles are available to them, however, without the requirement of a deposit.

The effect of this action by the Federal Reserve Board is to continue to deny to the average family man of the country the articles I have mentioned because the

(Continued on page 3253)

Protest Credit Prohibition on Listed Securities

Association of Stock Exchange Firms sends letter to Chairman Eccles of Federal Reserve Board in which resolution of its Board of Governors denounces extension of prohibition of margin trading as preventing its members from performing their functions efficiently, and as causing abandonment of productive enterprises. Points out orderly control differs from complete abolition of credit.

In a letter addressed to Chairman Eccles of the Federal Reserve Board, dated Dec. 10, James F. Burns, Jr., President of the Association of Stock Exchange Firms, and associated with Harris, Upham & Co., New York City, enclosed a copy of the resolution recently adopted by the Board of Governors of this organization protesting against the prohibition of margin trading in listed securities. The letter, which was also transmitted to other members of the Federal Reserve Board, reads as follows:

Hon. Marriner S. Eccles,
Chairman
Federal Reserve Board
Washington, D. C.

Dear Sir:

The Board of Governors of the Association of Stock Exchange Firms have unanimously adopted the following resolution with respect to the extension of credit on listed securities:

"To furnish a liquid market for those who wish to invest capital and for those who wish to withdraw capital from investment is one of the essential functions of the members of the New York Stock Exchange. Those members wish to serve the public fairly by providing a broad, free and resilient market. A second essential function is the responsibility of the members for using their best judgment and experience in guiding the constructive investment of the savings of more than 70 million Americans who own directly or indirectly the listed stocks and bonds of our country.

"Present restrictions on the use of credit for purchasing listed securities prevents members from performing those functions efficiently. Accordingly, the investing public and the economies as a whole suffer. Bad security markets contribute to bad business, since it is the flow of capital that counts. Without a constant and large flow of capital there cannot be high employment and a rising standard of living.

"In our complex economy with its multiple interwoven parts, trouble in one place starts a chain reaction which spreads to all parts.

"Already restrictions of credit for purchasing, or even substitut-

(Continued on page 3253)

NSTA Notes

NSTA SPECIAL LEGISLATIVE COMMITTEE

At the request of R. Victor Mosley, Stroud & Co., Inc., Philadelphia, President elect of the National Security Traders Association, a Special Legislative Committee was appointed by the NSTA to deal specifically with the proposed new legislation of the SEC regarding information on "Unlisted Companies" having $3 millions in securities outstanding, or 300 stockholders.

The list of the Committee, as announced by Thomas Graham, President of the NSTA, with representatives from each affiliate follows:

Chairman—Paul Moreland, Moreland & Company.

Vice-Chairman—Clair S. Hall, Jr., Clair S. Hall & Co.

Members—H. Frank Burkholder, Equitable Security Corp.; Chester A. Lucas, Stein Bros. & Boyce; Josef C. Phillips, Pacific Northwest Company.

Representatives

Atlanta, Ga.— Malon C. Courts, Courts & Company.
Baltimore, Md.—J. Creighton Riepe, Alex. Brown & Sons.
Boston, Mass.—Ralph F. Carr, Ralph F. Carr & Co.
Chicago, Ill.—Ralph S. Longstaff, Rogers, Tracy, Inc.
Cincinnati, Ohio—Harry C. Vonderhaar, Westheimer & Co.
Connecticut—Andrew Tackus, Putnam & Company.
Cleveland, Ohio—R. I. Cunningham, Cunningham & Co.
Dallas, Texas—W. C. Jackson, First Southwest Co.
Detroit, Mich—William Moore, McDonald-Moore & Co.
Denver, Colo.—Malcolm F. Roberts, Sidlo, Simons, Roberts & Co.
Florida—George M. McCleary, Florida Securities Company.
Houston, Texas—Claude T. Crockett, Moroney, Beissner Co.
Kansas City, Mo.—Arthur I. Webster, E. W. Price & Company.
Los Angeles, Calif.—Oliver B. Scott, Maxwell, Marshall Co.
Louisville, Ky.—Burgess Reimer, Berwyn T. Moore Co.
Memphis, Tenn.—Robert H. Jordan, Mid-South Securities.
Nashville, Tenn.—Chas. W. Warterfield, Cumberland Securities
New Orleans, La.—H. Wilson Arnold, Weil & Arnold.
New York, N. Y.—Wm. Titus, Jr., F. J. Young & Co.
Philadelphia, Pa.—Edmund J. Davis, Rambo, Close & Kerner.
Pittsburgh, Pa.—S. Lee Bear, Kay, Richards Co.
Portland, Ore.—Donald C. Sloan, Sloan & Wilcox.
St. Louis, Mo.—Joseph G. Peterson, Eckhardt-Peterson.
San Francisco, Calif.—Walter F. Schag, First California Co.
Seattle, Wash.—Harry Grande, Grande & Co., Inc.
Twin Cities—Kermit Sorum, Allison-Williams Co.

Paul Moreland

Clair S. Hall, Jr.

H. Frank Burkholder

Chester A. Lucas

Josef C. Phillips

First Boston Offers Eastern N. Y. Pwr. Bds.

An underwriting group led by The First Boston Corp. and including Smith, Barney & Co. and Merrill Lynch, Pierce, Fenner & Beane, won the award of Eastern New York Power Corp. $9,861,000 first mortgage sinking fund bonds, due 1961. The winning bid named a price of 101.24 for a 3¼% coupon. The group is publicly re-offering the bonds today at 102. At this price the yield to the purchaser would be approximately 3.09%.

The proceeds from the new bonds, together with those from sale of $3,000,000 in preferred stock, will be used to pay off at maturity on Jan. 1, 1947, the $12,861,000 of International Paper 5% bonds. The International Paper bonds were assumed by Hudson River Power Corp., one of the companies to be merged into Eastern New York Power.

Paul Porter to Head Commission to Greece

Paul A. Porter, recently resigned Price Administrator who had stated his intention for personal reasons to sever all connections with the Government, on Dec. 11 was appointed chief of an American Economic Mission to Greece, which is expected to leave Washington by air about Jan. 20, according to advices from Washington from the Associated Press. The State Department announcement stated that the mission, which has been asked to complete its job by the end of next April, "will examine economic conditions in Greece," and will further "consider the extent to which the Greek Government can carry out reconstruction and development through effective use of Greek resources, and the extent to which foreign assistance may be required."

Michigan Brevities

Trading on the Detroit Stock Exchange dropped to 233,054 shares, valued at $2,995,298, last month, as against 391,912, valued at $4,679,-747 in the comparable period in 1945. For the first 11 months sales were 4,689,125, or $58,152,265, as against 5,203,177, or $50,461,598 in the like 1945 months.

* * *

Copco Steel & Engineering Co. of Detroit has requested SEC permission to withdraw 150,000 shares of $1 par common stock "because of unsettled market conditions."

* * *

The First of Michigan Corp. and associates, including Braun, Bosworth & Co.; McDonald-Moore & Co.; Paine, Webber, Jackson & Curtis; H. V. Sattley & Co., Inc.; Miller, Kenower & Co.; Cray, McFawn & Co.; E. H. Schneider & Co.; Crouse & Co.; Donovan, Gilbert & Co., have purchased an issue of $2,000,000 Western Michigan College of Education, Kalamazoo, 1¾%, 2%, 2⅛%, and 2¼% dormitory revenue bonds. The bonds were offered as serial and term bonds at prices from 1.00% to 2.34%.

* * *

Smith, Hague & Co., Detroit investment firm, announced that Randall Graphite Products Corp. has declared a dividend of 7½ cents, payable Dec. 28 to holders of record Dec. 21. It is the first payment by the concern since the stock was offered publicly last month. Smith, Hague & Co. underwrote the offering of 100,000 shares of $1 par value common stock at $3.50.

* * *

Michigan Consolidated Gas Co. was given permission by the SEC to acquire the assets of West Michigan Consumers Co., consisting of 4,182 shares of no par common for an aggregate value of $1,500,-000. West Michigan will liquidate and transfer its assets to Michigan Consolidated.

* * *

Winters & Crampton Corp., Grandville, Mich., has asked SEC authority to withdraw its registration statement of Aug. 27 for 119,337 shares of $1 par common stock. No explanation was given for the request to withdraw the securities.

* * *

The Detroit Stock Exchange has approved for listing 309,918 additional shares of $1 par common stock of the Detroit Gasket & Manufacturing Co. Of this amount 214,250 shares will be issuable Jan. 2 to present holders of common on the basis of one new share for each share now held. The remaining 95,668 shares will be issuable to stockholders of Extruded Metals, Inc., on the basis of two new shares for each share outstanding, according to terms of a merger agreement.

* * *

H. V. Sattley & Co., Inc., and Campbell, McCarty & Co., of Detroit, have been awarded $125,000 of Birmingham, Mich., water supply system revenue bonds by the Birmingham City Commission. Bonds maturing from 1948 thru 1958 bear interest at 2% while bonds due 1959 thru 1967 bear 1¾% interest. The average yield is 1.82%.

* * *

Directors of Detroit's billion dollar bank—The National Bank of Detroit—have approved the retirement on Jan. 6 of the remaining $8,500,000 worth of preferred stock held by the RFC and the payment of a 20% stock dividend on Feb. 1 to stockholders of record Jan. 6, and the declaration of the semi-annual dividend of 65 cents, payable Feb. 1 to holders of record Jan. 3.

* * *

George W. Mason, President of Nash-Kelvinator Corp., has announced that arrangements have been made with the Prudential Insurance Co. for a $20,-000,000 loan. Borrowed at 3% for 16 years, it will provide additional capital and to finance further expansion.

* * *

Directors of The Detroit Bank have declared the annual dividend of $1.20 on the common, payable Dec. 23. In addition, the board recommended an increase of 25,000 shares in the common capital stock to be distributed to shareholders as a stock dividend on the basis of one share for each six shares held, payable Feb. 15 to holders of record Jan. 14.

Decentralization of Industry: Babson

(Continued from page 3210)

portation costs. Another example of the wise use of small towns is seen in the building of canning factories, freezing plants and now dehydrators.

Accessibility to sources of cheap power and food make rural sections especially inviting to industry. Small cities in Kansas, Missouri, Texas, Louisiana, Oklahoma, Kentucky, Montana and West Virginia are near large sources of natural gas. This can be used for cheap fuel and as the raw material for chemicals and other synthetic products. Towns near such sources of hydroelectric power, as that of the Tennessee Valley Project, the Boulder Dam in Colorado, and Bonneville and Grand Coulee dams in Oregon, offer industry a low-cost and nearly unlimited power supply. A possibility for the future, now in the experimental stage, of comparatively strike-free power in rural districts is the production of gas by burning unmined coal. Numerous small towns lie strategically near great latent coal supplies.

Living Conditions

A healthy environment can have a tremendous effect on the morale of workers. Although wages today are being pretty much standardized everywhere, some employees are willing to work for less where they can work in the same small town in which they live. Thus, they cut commuting costs, cost of lunches and are able to shop where prices are cheaper. They surely do more and better work for the same wages.

Added to the financial advantages of the rural worker are the advantages of extra leisure. He may walk to and from his job, work in a healthy environment, for, and with, men who are his neighbors and church friends. He knows that with honest effort he may be outstanding in his small community, rather than lost in an enormous one. The lack of a feeling of personal importance often causes slip-shod, don't-care attitudes among big-city workers. This increase in morale may be one of the reasons for greater productivity in the small community for the same money paid in the city.

Think of Management

Small cities also offer attractions for management and their families. Their women and children like the friendly conditions. The unit manager has an opportunity to develop independence of thought and action, solving industrial problems with a minimum of red tape and cost. Decentralization of industry is the trend of the times while at the same time large cities will continue to grow and prosper.

Connecticut Brevities

The Plastic Wire & Cable Company of Jewett City reported net income of $35,254 or 86¢ per share for the fiscal year ended Sept. 30, 1946. Net sales for the year were $2,205,248; earned surplus, $165,-447, and net working capital $370,206.

* * *

For the month of November, Connecticut Light & Power Company reported sales of 91,562,000 kwh. compared with 77,019,000 kwh. for the same month of 1945. This represents a gain of 17.6%.

* * *

Royal Typewriter Co., in their consolidated income account (including domestic subsidiary) showed net profit of $409,855 for the three months to Oct. 31, 1946. This compares with $33,-373 for the corresponding period last year. On a per share basis, earnings were 32¢ against a deficit of 3¢ a share respectively.

* * *

The City of New Britain recently awarded to Bacon, Stevenson & Co. at 100.297 for 1.20s, $110,-000 Street bonds, dated Dec. 1, 1946, payable $11,000 each year, June 1, 1948 through 1957.

* * *

The Hartford National Bank & Trust Company is planning to open a new branch at 866 Farmington Avenue, West Hartford.

* * *

For the month of November, the Bridgeport division of United Illuminating Company reported sales of 34,715,832 kilowatt hours which compares with 31,900,181 for November 1945. This represents an increase of 8.6%. In the New Haven division, sales of 25,018,-088 kilowatt hours increased 16.8% over November of last year.

* * *

The Town of East Hartford recently sold $1,210,000 School bonds dated Dec. 1, 1946 due $64,-000 each year commencing Dec. 1, 1948 and $63,000 maturing each year commencing Dec. 1, 1961 through Dec. 1, 1966 inclusive. The issue was purchased by The First Boston Corporation and R. L. Day and Company with a bid of 100.65 for a 1.60% coupon. The bonds were reoffered to the public at prices ranging from a .75% to a 1.65% basis.

* * *

New Haven recently sold $200,-000 General Public Improvement bonds dated Dec. 1, 1946, due $23,-000 Dec. 1, 1948 through 1949, and $22,000 payable Dec. 1, 1950 through 1956. The First Boston Corporation was awarded the bonds with a bid of 101.10 for a 1¼% coupon.

* * *

Veeder-Root, Inc, in a statement as of Nov. 3, 1946 showed total current assets of $4,550,504 against $3,891,031 a year ago. Total current liabilities were $649,679 against $584,035. Total assets were $7,435,572 against $6,193,094.

As of January 1 of this year, earned surplus account totalled $2,513,341 compared with $2,282,-895 as of the preceding January. The net increase in earned surplus in the period Jan. 1, 1946 to Nov. 3, 1946 was $611,318, bringing the total to $3,124,659. This compares with an increase of $124,830 in the corresponding period of last year which brought the total to $2,407,725.

The corporation's most serious problem at the present time is the scarcity of raw materials.

* * *

Recent additions to the list of legal investments for Connecticut Savings Banks are as follows:

Province of Saskatchewan 3½s, 3¾s and 4s due June 15, 1947-49; Pacific Gas & Electric Company 3½s due June 1, 1966; Philadelphia Electric Company 2¾s due Dec. 1, 1981; American Telephone & Telegraph Company 2⅝s due July 1, 1986 and 2¾s due Dec. 15, 1961; Pacific Telephone & Telegraph Company 2⅞s due Oct. 1, 1986; Rochester Telephone 2½s due April 1, 1981; Chesapeake & Ohio Railway Company Equipment Trust 1½s due Aug. 1, 1947-56 and 1¾s due Dec. 1, 1947-56; Chicago & North Western Railway Company Equipment Trust 2s due Dec. 1, 1947-56; Delaware Lackawanna & Western RR. Co. Equipment Trust 2s due May 1, and Nov. 1, 1947-56; Northern Pacific Railway Company Equipment Trust 1¾s due Dec. 10, 1947-56; Pere Marquette Railway Company Equipment Trust 1½s due July 15, 1947-56; Union Railroad Company Equipment Trust 1¼s due Sept. 1, 1947-56; Southern Railway Company Equipment Trust 1¾s due June and Dec. 15, 1947-56; and Western Maryland Railway Company Equipment Trust 1¾s due Nov. 15, 1947-56.

* * *

Among the industrial companies declaring extra year-end dividends are the following:

Bristol Brass paid an initial quarterly dividend of 30c a share plus an extra of 40c on Dec. 14; Stanley Works declared $1 extra payable Dec. 20 to stockholders of record Dec. 6. Arrow-Hart & Hegeman Electric Company declared $2.50 payable Jan. 2 to stockholders of record Dec. 10. Fafnir Bearing declared $1.50 payable Dec. 17 to stock of record Dec. 5, making $5 for the year against $4 paid in 1945. Hart & Cooley declared $2, paid Dec. 18, bringing the total payments for the year to $6 against $5 for last year. Singer Manufacturing Company declared a special dividend of $4 a share payable Dec. 27 to stock of record Dec. 12, bringing total payments for the year to $16 against $12 paid last year.

CHAL-Yon Corp. Formed

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS.—The CHAL-Yon Corporation has been formed with offices at 89 State Street to engage in the securities business. Officers are Joel Willoughby Eastman, President; Richard S. Whitcomb, Treasurer; and George W. Sears, Jr., Secretary.

Why Cheap Money?

By PAUL EINZIG

Dr. Einzig points out British Government's cheap money policy is an inevitable necessity of Treasury policy and not a Socialistic phenomenon. Sees in any reversal of interest rates a heavy burden to British Treasury and a conceivable intensification of inflation, but concludes the cheap money drive cannot continue forever, and its adverse effects can be avoided if time is given to reduce unwieldy mass of floating debts to manageable proportions.

There is every likelihood of a determined attack on the British Government's cheap money policy in the not too distant future on the part of the opposition. The main argument is expected to follow on orthodox lines, judging by the preliminary skirmishes that have preceded the attack. The cheap money policy is accused of being responsible for the inflationary trend that is threatening the country.

Paul Einzig

Beyond doubt, the trend of prices and wages is still in an upward direction, and the Government is largely responsible for this. Anybody attacking the official policy on the ground of Mr. Dalton's cheap money drive, however, mistakes the shadow for the substance. The Government is open to criticism on account of its inability of imposing a ceiling to the rise in wages, and even more on account of its inability to induce its supporters among the working classes to put in an honest day's work for a full day's wages. It is because the Government is incapable of enforcing discipline and devotion to duty among its followers that prices are rising; compared with this factor, the cheap money policy is a mere drop in the ocean.

In any case, cheap money policy, in the conditions prevailing at present in Britain, is an inevitable necessity, and would be pursued by the Treasury under no matter what Government is in power. It is a necessity if the Government wants to ensure the renewal of the gigantic floating debt. So long as holders are convinced that by hesitating whether to renew it or not they stand to lose as a result of the continuous downward trend of interest rates, they will not be slow in renewing their holdings. The moment they realize that there is no likelihood of a further decline many of them may prefer to wait and see.

What both supporters and opponents of the cheap money policy fail to realize is that the policy cannot be arrested. It must either go on or it becomes reversed. Supporters of cheap money would like the downward trend of interest rates to continue, in order that the low limit should be reached as soon as possible. Op-

(Continued on page 3253)

Unchanged Basic Interest Rate Predicted by First Boston Corp.

Study denies recent rise in "corollary" rates indicates general firming. Questions desirability of peacetime selling of Treasury securities to public. Estimates annual outside financing needs of corporations at only $2 billion. Urges reform of tax structure.

Even a high degree of business activity during the next five years would not bring about a material change in the basic long-term interest rate, The First Boston Corporation maintains. This is the keynote of a study, released this week, which was prepared by Aubrey Lanston, Leroy M. Piser, and Malcolm B. Lees, officers of the firm.

A. G. Lanston

The study concludes that the impact of a prosperous business condition over the next five years would bring about no material change in the basic long-term interest rate (that on Treasury securities). It states that under these conditions the average yield on long-term Treasury bonds should range between 2.50% and 2.35%. Under somewhat depressed conditions the study anticipates that long-term rates would fluctuate around the lower level of this range. It concludes that rates on short-term Treasury securities probably will remain unchanged, but it adds that the future level will depend largely on Treasury and Federal Reserve policies, and that if any change impends an upward revision is the more probable.

The study states that the recent increase in interest rates on other classes of securities and on loans, which it terms corollary rates, is not an indication of a general firming of interest rates. The upward change in these rates is claimed to be a reflection of both the increased supply of such loans and investments and the larger degree of risk inherent in the more freely-operating peacetime economy.

Under the business possibilities considered, the study estimates that life insurance companies should continue to be reasonably substantial buyers of Treasury securities over the five-year period; that savings banks may be net sellers; that commercial banks would be buyers in a somewhat depressed business condition, but would lose Treasury securities on balance in a prosperous one, and that the Federal Reserve Banks will continue to hold about the same amount of Treasury securities as at present. Over the near-term commercial banks are expected to be buyers of intermediate maturities.

While the study was originally designed to provide some logical conclusions as to the future of interest rates under a certain range of business conditions, other comments are made which are of interest with respect to desirable governmental policies and the economic and financial requirements of prosperity.

Questions Desirability of Peacetime Sales to Public

The report questions the overall desirability of endeavors to sell increasing amounts of Treasury securities to the public in peacetime. The point is made that if a

(Continued on page 3241)

Missouri Brevities

On Dec. 13, two issues of Kansas City Power & Light Co. securities were publicly offered, the proceeds of which are to be used to redeem (a) $38,000,000 of first mortgage bonds, 3¾% series due 1966 at 110, and (b) 40,000 shares of first preferred stock, series B, at 115. Halsey, Stuart & Co. Inc., together with Baum, Bernheimer Co. of Kansas City, and Newhard, Cook & Co., Reinholdt & Gardner, Smith, Moore & Co. and Stix & Co., all of St. Louis, and others, participated in the offering of $36,000,000 first mortgage bonds, 2¾% series due 1976 at 101.43 and interest. A syndicate headed by The First Boston Corp., and including, among others, Stern Brothers & Co. of Kansas City, offered 100,000 shares of 3.80% cumulative preferred stock (par $100) at $102.70 per share and dividends from and including Dec. 1, 1946.

For the 12 months ended Sept. 30, 1946, the utilities company reports total operating revenues of $23,822,030, as against $23,573,761 in the same period ended Sept. 30, 1945; net income after charges and income taxes was $4,022,901, compared with $3,024,807; and earnings per common share amounted to $7.20, compared with $5.30 in the 1945 period.

* * *

Public offering was made on Dec. 12 by Dempsey-Tegeler & Co. and J. W. Brady & Co., both of St. Louis, of 50,000 shares of 5% cumulative convertible preferred stock, par $10, and 100,000 shares of common stock, par $2, of General Engineering and Manufacturing Co., the preferred being sold at par and dividends from Nov. 1, 1946, and the common at $5 per share. The common stock was oversubscribed. The proceeds are to be used for corporate purposes. It was announced that the company plans to start assembly line production next month of its new "packaged" air conditioner for stores, offices, beauty parlors, etc. The company also expects that another development, described as a refrigeration machine which reverses its function in winter as contrasted with summer, will go into production in the latter part of 1947.

* * *

A group of underwriters headed by Scherck, Richter Co., St. Louis, and Straus & Blosser of Chicago, and including among others, Newhard, Cook & Co., Mark C. Steinberg & Co., I. M. Simon & Co., Taussig, Day & Co., Inc.; White & Co.; Reinholdt & Gardner; Stix & Co.; Friedman, Brokaw & Samish, and William F. Dowdall & Co., all of St. Louis, and E. W. Price & Co. of Kansas City, on Dec. 6 offered an issue of 150,000 shares of $1 par value common stock of Velvet Freeze, Inc., at $7.50 per share, on behalf of certain stockholders.

Velvet Freeze manufactures ice cream and operates a chain of stores selling ice cream at retail. In addition, it also manufactures for use in its own stores, syrups, toppings and flavorings. The company reports a net profit after taxes of $320,375 for the 10 months ended Oct. 31, 1946, which compares with $146,526 for the full calendar year 1945.

* * *

Brown Shoe Co., Inc., St. Louis, reports for the fiscal year ended Oct. 31, 1946, net sales of $54,966,265, as against $56,458,352 in the previous year; and a net profit, after Federal income and excess profits taxes, of $2,513,889, equal to $4.86 per common share, after preferred dividends, compared with a net income of $791,270, equal to $3.21 per common share for the year ended Oct. 31, 1945. Current assets as at Oct. 31, 1946 amounted to $23,150,729, and current liabilities were $4,565,120, as against $19,789,689 and $3,977,062, respectively, at the close of the preceding year.

During the latest year, the company completed the construction of two new shoe factories, and a third is reported to be nearing completion.

* * *

Reinholdt & Gardner, together with Stifel, Nicolaus & Co., Inc., also of St. Louis, on Dec. 31 made a secondary distribution of 4,000 shares of Johnson-Stephens & Shinkle Shoe Co. common stock (no par value) at $13.50 a share.

* * *

An issue of $80,000 of St. Joseph, Mo., 2% refunding school bonds, due in 20 years, was publicly offered on Dec. 9 through Barret, Fitch & Co., Inc., and Lucas, Farrell & Satterlee, Inc., both of Kansas City, and sold within 48 hours and the account closed.

* * *

Spencer T. Olin, Vice-President of Olin Industries, Inc., on Dec. 13 was elected a member of the board of directors of Laclede Steel Co. to fill a vacancy.

* * *

Kansas City Title Co. on Dec. 11 declared a dividend of $8 per share on its capital stock, payable Dec. 28 to holders of record Dec. 20. Total payments for the calendar year 1946 will amount to $13 per share, compared with $6 per share in 1945.

* * *

The net income of the Kansas City Southern Ry. for the ten months ended Oct. 31, 1946, amounted to $2,874,933, equal to $4.26 a common share, compared with $3,957,793, or $6.39 a common share in the corresponding period ended Oct. 31, 1945.

Charles Clark to Admit Field and Schlater

Charles Clark & Co., 72 Wall Street, New York City, members of the New York Stock Exchange, will admit Edward P. Field and Myron F. Schlater to partnership on Jan. 1. Mr. Field was previously a partner in Edward P. Field & Co. Mr. Schlater was manager of the municipal department for Charles Clark & Co. for a number of years.

Robert H. Rich will retire from partnership in the firm on Dec. 11.

Real Estate Securities

During this period when the stock market, according to some observers, is trying to decide which way to turn, the investor who contemplates placing funds in real estate securities steers a wise course, say some of the analysts, who shows a proper regard for the cost factor in the operation of any properties in which he may be or become interested. In appraising the cost element, too, these analysts point out, it might prove helpful to compare present figures with those of the last decade as the differences in the amounts could give some indication of the extent to which costs with some adjustments, of course, could drop if necessary.

The cost factor can be particularly important in the case of hotels, the analysts argue. Some really good names in hotels, for instance, because of the presence of high costs, often can not offer the investor returns or the prospect of returns as large as or as promising as those which many other less well-known establishments, because of their lower costs, are sometimes able to provide, they report. Some of the generally-considered best hotels today are requiring 85% of occupancy to meet operating costs whereas others need now, or at some possible future date in a declining market would need, only 65% or so, these analysts declare. Since hotel occupancy on the average is running around 95% at the present time, it must be obvious that the establishments which require the least amount of occupancy to keep their financial heads above water can stand the most punishment in the way of business shrinkage before really getting hurt, they insist.

Among the commercial buildings, the cost factor is likewise becoming very important, the analysts say, because there are some signs of shrinkage in the amount of space which tenants are requiring. However, they admit these signs are at present at least very spotty indeed. Despite even the expected wholesale withdrawal of the government wartime agencies from the millions of square feet of space they are now occupying in these buildings, the analysts think, occupancy should nevertheless remain at a fairly high level for a minimum of two years more.

Probably the primary consideration in their thinking, as in the thinking of those concerned with at least another section of the real estate market, apartment houses, is that the present structures won't be getting any competition from new buildings for this length of time at least for the very simple reason that it will undoubtedly take all of two years for the various troublesome bottlenecks in the construction industry to open up. Since the stock market rarely discounts the future with any degree of assurance more than six months ahead, they say, the entire market in real estate securities probably, with all due consideration to the cost factor, should with good reason remain relatively strong for some time yet.

Should the securities market really weaken, they point out, even where the yield on some real estate bonds, for instance, is equal to the return on some corporate stocks, the real estate bonds would nevertheless have to face the competition which past experience has shown these stocks can give them. On the other hand, some market-wise investors who don't like to put all their eggs in one basket will certainly want to continue to include a few good real estate securities among their holdings, the analysts reason.

It would not be difficult to find someone on Wall Street who thinks that real estate securities have definitely passed their peak in prices in the current market. While bearish feeling is admittedly very strong in the real estate field, as in many other sections of the securities market, yet an opinion is held by some that prices will tend to gravitate more or less around present levels—which, by the way, holders of this opinion consider to be healthier levels than those from which the prices have fallen—for some time, perhaps until the new construction can get under way. Very few real estate men believe that the new construction, even when started, will be attempted on anything approaching a very grand scale, however. The potential of strength in real estate securities consequently is probably greater than the market is inclined today to give it, the analysts point out.

Such new construction as may reasonably be expected to be undertaken in the future will very likely be confined to those areas where severe congestion exists because of wartime shifts in the population, the market experts believe, too. Many of the present commercial buildings and apartment houses consequently should be able to receive for a considerable period many new tenants as present leaseholders find they are able to get along on less floor space, they point out. In and arond New York, demand for existing commercial and apartment space should remain heavy indeed for some time, they think. Selectivity, they say, based upon considerations of the operating costs of particular properties in an uncertain market should and can surround many real estate securities with a halo of attractiveness despite the apparent force of the bearish mood of the day.

Result of Treasury Bill Offering

The Secretary of the Treasury announced on Dec. 16 that the tenders for $1,300,000,000 or thereabout, of 91-day Treasury bills to be dated Dec. 19 and to mature March 20, which were offered on Dec. 13, were opened at the Federal Reserve Banks, on Dec. 16.

Total applied for, $1,784,033,000.

Total accepted, $1,308,874,000 (includes $26,576,000 entered on a fixed price basis at 99.905 and accepted in full).

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

Range of accepted competitive bids:

High, 99.907, equivalent rate of discount approximately 0.363% per annum.

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

71% of the amount bid for at the low price was accepted.

There was a maturity of a similar issue of bills on Dec. 19 in the amount of $1,304,827,000.

Gerald Goodman Visits NY

Gerald M. Goodman, Vice-President of Lord, Abbett & Co., Inc., with headquarters in Los Angeles, is at the firm's home office, 63 Wall Street, New York City, where he is attending executive meetings. Mr. Goodwin will be here until December 21 at the Hotel Pierre.

Consumer-Spendable Income, Spending, Savings, Credit

By DR. RUFUS S. TUCKER*

Dr. Tucker maintains volume of spending and saving greatly depends on manner in which disposable income is distributed. Cities importance of "supernumerary income," which is the residium of disposable income after provision for necessities. Opposing Keynesian economists, he contends no nation has ever suffered from excessive private saving; and Russia is only country injured by governmental over-saving.

We are mainly interested in statistics of income and savings because of their bearing on future demand for products we hope to sell. There are obvious limitations on the extent to which figures of national income and patterns of consumer spending can be relied upon to forecast sales. The published figures are subject to a wide margin of error, and any forecast of future income is hazardous. But they are not wholly useless. They furnish a frame of reference against which the student of some particular product can place his own estimates to see if they fit. If they do not, he must make up his mind whether it is his picture or the frame that is the wrong size.

Rufus S. Tucker

In most cases the volume of spending and saving is determined not by the total of money income, or statutory net income, or the "total" income as defined by government economists to include income received in kind. It is linked more to disposable income, which is what is left of income payments after payment of direct taxes, but depends greatly on the manner in which that income is distributed, i.e. the number of families at each income level, and the extent to which consumers are already supplied with durable goods.

To some extent it is helpful, in judging the potential demand for goods not of the first order of necessity, to deduct from disposa-

(Continued on page 3243)

*An address by Dr. Tucker before Northern New Jersey chapter of American Marketing Association, Newark, N. J., Dec. 10, 1946.

Capital Goods for Consumers

By REAVIS COX*
Wharton School of Finance, Pennsylvania University

Holding inadequate attention has been given to accumulation of consumer capital as a factor determining level of real income and that instalment credit has less influence upon consumer purchases of durable goods than does size of the accumulated stock, Prof. Cox contends regulation of instalment buying modelled on Regulation W has little effect on inflationary forces. Sees a better control in restrictions on production and contends "deferred demands" often are dissipated and disappear. Points out increasing life span of durable goods.

We have only begun to understand how big an accumulation of durable goods we need to maintain the American level of living. The National Resources Committee published in 1939 a first rough guess for the year 1935. Even more recently, my colleague at the University of Pennsylvania, Professor Ralph F. Breyer, and I have worked out a more refined estimate, using the greatly improved basic statistics now available for the purpose. Our central conclusions: On Jan. 1, 1940, the depreciated value of durables and semi-durables held for use by consumers totalled 35.1 billion dollars. Three years later, after adjustment to remove the effects of a 25% price increase during the interval, this total had risen to 40.1 billion dollars. In unadjusted current values it had risen to 50.5 billion dollars.

As yet no one has brought these estimates down to date. We have no reason to doubt, however, that as we climb to high postwar levels in the production of consumer durables we shall also reach new highs in consumer holdings of these goods, even if they are valued at prewar prices. Taken at current values, the aggregates will be still higher because of the rises in prices since 1942.

I shall not undertake here to discuss our findings in more detail. Our report has been published. For present purposes I want only to stress the fact that approximately two-thirds of these holdings of consumer capital goods are durables in the purchase of which instalment credit plays a major part. These goods, for which instalment buying is particularly important, fall into four large groups. The largest consumer investment, to our surprise, we found not in automobiles but in

(Continued on page 3252)

*An address by Prof. Cox before the Northern New Jersey Chapter, American Marketing Association, Newark, N. J., Dec. 11, 1946.

Distribution to Sustain Expanded Production

By ALFRED SCHINDLER*
Former Under Secretary of Commerce

Former Commerce Department official asserts our distribution policies are faced with dual challenge: (1) to advance interests of particular companies; and (2) to promote all business. Holds increase of incomes of under-privileged consumers—comprising one-third of the nation—is indispensable for an expanding economy. Costs must be lowered for benefit of lower income groups. Maintains trade barriers plug the lines of distribution and must be abolished.

I'm convinced that full and effective distribution of goods and services is determined by the amount of money or credit in the hands of the people. The primary force which determines the annual volume of business done in this country depends on the total amount of money each consumer decides to spend out of his or her total income.

Alfred Schindler

Now the total amount of money which people will spend in the aggregate depends, by and large, on the size of their income. All the charts which our economists have ever prepared on sales-income relationships clearly demonstrate this fact. For this reason all the effective distribution techniques such as advertising campaigns, sales promotional activities, are apt to fail of their mark if the dollars which they seek are not in the pockets of their potential customers. Let us always remember that man can only buy when he has the money or credit, and he can only have the money or credit when he is productively and gainfully employed.

Now, the second conviction I have with regard to distribution is that you do not necessarily achieve an increase in total employment when a particular firm succeeds in increasing the sale of its product or brand, if this increase is accomplished by shifting sales from its competitors.

The Diversion of Sales

For example, aggressive merchandising which results in an expansion of the sales volume of X brand automobiles may have been achieved by diverting sales from its competitors in the industry. If the total sales of autos bear the same relationship to income as before, then, obviously, total employment has not necessarily been increased.

Of course, if the increased sales of X brand autos leads the company to make a greater net investment in plant, equipment and inventory, then aggregate national employment would be increased.

However, even if the entire automobile industry succeeds in selling more cars, and in this manner obtains a larger share of the consumer's dollar, it still does not follow that the total national output and employment will be increased. The public may buy more automobiles and less, let us say, household furniture and furnishings, so that their total spending remains the same. In other words, the consumer may merely shift the pattern of his purchases without spending more, in the aggregate, out of his given level of income.

A Dual Challenge to Distribution

Thus distribution is faced with a dual challenge: first to advance

(Continued on page 3243)

*Address by Mr. Schindler before Northern New Jersey Chapter of American Marketing Association, Newark, N. J., Dec. 11, 1946.

Supreme Court Outlaws State Tax on Interstate Securities Sales

The Supreme Court rendered a decision, with two justices dissenting on Dec. 16 holding the State of Indiana was without power to levy a gross income tax to a sale by a resident of stocks to an out-of-state purchaser.

This reverses the Indiana Supreme Court which held that the sale was not in interstate commerce and therefore barred from state taxation.

The case grew out of an appeal by Almira G. Freeman of Richmond, Ind., who paid the 1% Indiana sales tax, totaling $652 under protest.

Justice Frankfurter, who read the decision, said that the interstate commerce clause of the Constitution prohibited a state from "taking any action which may fairly be deemed to have the effect of impeding the free flow of trade between states" and that the purpose of this clause was "to prevent states from exacting toll from those engaged in national commerce."

Moore, Leonard & Lynch Admits Two New Partners

Charles R. Leonard, Jr. and William A. H. Leonard will be admitted to partnership in the New York Stock Exchange firm of Moore, Leonard & Lynch, on Jan. 1. They will make their headquarters at the firm's New York office, 14 Wall Street.

Laidlaw Admits Partners

Laidlaw & Co., 26 Broadway, New York City, members of the New York Stock Exchange, will admit to partnership on Jan. 2, William W. Kouwenhoven, William E. Dugan, Paul E. Burdett and Henry B. Laidlaw, general partners, and Theresa N. McSweeney, limited partner.

Questions of Foreign Economic Policy

By RAYMOND F. MIKESELL*
Associate Professor of Economics, University of Virginia

Prof. Mikesell points out a successful foreign economic policy is essentially a compromise between national interests and external realities and calls attention to conflict in the foreign trade objectives as laid down in the proposed I. T. O. Charter. Sees difficulties in carrying out proposals under conflicting ideas of private trading and state trade monopoly and contends a single state trading organization does not operate on principle of free flow of commerce based on relative competitive advantage. Holds I. T. O. loopholes regarding commodity agreements a practical compromise.

There are two basic questions to be considered by every country in the formulation of its foreign economic policy. The first question has to do with the international economic objectives and means of attaining them from the standpoint of the national economic and political interests of the individual country. The other question relates to the feasibility of realizing these objectives in the light of the interests of other countries and of the structure of the international economic and political environment. In a world of widely differing economic and political systems and philosophies a successful foreign economic policy must be something of a compromise between national interests and external realities.

Raymond F. Mikesell

U. S. Objectives

We may summarize the basic foreign economic objectives of the United States as follows:

1. There should be a large volume of world trade in which the United States will have a share consistent with its productive capacity.
2. World trade should be multilateral in character.
3. There should be no discrimination against the trade of any peaceful nation and no discrimination against U. S. trade in particular.
4. International trade should, with few exceptions, be carried on by private enterprise without collusion.
5. There should be established an international environment conducive to world economic stability at high levels of income and employment for all countries.

The specific measures which have been taken to further these objectives are well known. The United States has sought to reduce barriers to the free flow of

(Continued on page 3244)

*An address by Prof. Mikesell at the University of Toronto, Toronto, Canada, Dec. 13, 1946.

Bank and Insurance Stocks

By E. A. VAN DEUSEN

This Week—Insurance Stocks

An interesting and harmless "indoor sport" is that of occasionally computing the potential market appreciation of stocks on the assumption that the market will eventually move up from its present level to a previous high point. For example, Standard & Poor's weekly index of fire insurance stocks was 116.8 on Dec. 11, 1946; its previous high was 124.3 in February 1936, and the potential appreciation is 6.4%. By way of comparison it is of interest to note that the Dow-Jones Industrial Average has to appreciate 10.4% from its Dec. 11 level to reach its 1936 high of 194.4. In other words, industrials have declined further since 1936 than have fire stocks. How individual fire insurance stocks compare with the index and with each other is shown in the following table.

	Asked Price 12/11/46	1936 High	Appreciation or Depreciation to Reach 1936 High
*Aetna	53¼	72	35.2%
Agricultural	77	95½	24.0
Amer. Equitable	18¼	40	119.2
Bankers & Shippers	65	118	81.5
Boston	65½	73	11.5
*Continental	49¼	46	—6.6
*Fidelity-Phenix	55¾	49¼	—11.7
*Fire Association**	55	75	36.4
Franklin Fire	21½	38	76.7
Glens Falls	50½	48½	—4.0
*Great American	27⅞	35¼	26.5
Hanover	27	43¼	60.2
*Hartford	96¼	92	—4.4
*Home**	26½	41¾	57.5
*Ins. Co. of N. A.	97½	84½	—13.3
*National	51	89	74.5
New Brunswick	26	40	53.8
New Hampshire	52	51½	—1.0
*North River	22½	31¼	38.9
*Phoenix	88½	109	23.2
Prov. Washington	36	46½	29.2
*St. Paul Fire & Marine	65	48	—26.2
Security	31¼	44½	42.4
*Springfield F. & M.	114	154	35.1
*U. S. Fire	47	60½	28.7

*Stock used in Standard & Poor's Index.
**Adjusted for stock dviidends.

First it will be observed that seven of the 25 stocks are higher than the highs of 1936, having moved against the index. These stocks are: Continental, +7.1%; Fidelity-Phenix, +13.2%; Glens Falls, +4.1%; Hartford Fire, +4.6%; Insurance Company of North America, +15.4%; New Hampshire, +1.0% and St. Paul Fire & Marine, +35.4%. Does this mean that their prospects of future appreciation are inferior to those of the other 18? We think not, in fact rather the reverse, for the market has moved their prices up, in most cases because of superior earning and growth factors.

Among the remaining 18 stocks, "potential" appreciation ranges from a low of 11.5% for Boston to a high of 119.2% for American Equitable. The average for the 18 stocks is 47.5% and for the 25 stocks, 31.5%. The reason for the disparity between these averages and the index lies in the weighting method used in computing the index and in the stocks which comprise it, several of which are stocks which are priced higher than in 1936. Stocks which are included in the Standard & Poor's index are marked with an asterisk and in addition there are: American Insurance, Fireman's Fund, Firemen's of Newark and National Liberty. Firemen's Fund is now 21% above its 1936 high, after adjustment for capital changes.

Such a table as this is something to study with a speculative eye, but it cannot be used as a serious guide to future market performance; if this were so, an investor would refrain from placing his funds in Fidelity-Phenix or Insurance of North America, and instead would place them in such stocks as American Equitable or Bankers & Shippers.

The main point to consider is that one must distinguish between the relatively speculative issues of fire insurance stocks and those of investment caliber. The former are more volatile in market action and may well afford trading opportunities for short and medium term gains, in which connection the tabulation above may serve as some sort of a guide. But for the long term investor this table will indicate those stocks which the market has particularly favored for good and sufficient reasons. For example: Continental, Fidelity-Phenix, Hartford, Insurance Co. of North America and St. Paul Fire & Marine have shown a growth in equity since 1936, as measured by the ploughback of undistributed earnings, far greater than the average of the group. On the other hand the growth of such stocks as American Equitable, Bankers & Shippers, Franklin, Hanover, Home, North River, etc., has been well below average.

Officials of Bank And World Fund

(Twenty-fifth of a Series)

SIR JAMES GRIGG
UK Executive Director of the World Bank

Appointed by the British Government as its executive director of the World Bank to replace Mr. Robert H. (now Lord) Brand, its temporary executive director, Sir James Grigg assumed his new duties in Washington in June. On the Bank board he casts 13,250, or 4.98% of the 85,270 votes of the institution as at present composed.

Sir James Grigg

Born in Exmouth, Devon in 1890 and educated at Cambridge, where he made an outstanding record, James Grigg passed the civil service examinations with distinction and immediately entered the British Treasury in October 1913. Since then his has been a career of public service, culminating in Secretary of State for War in the Churchill Cabinet. His long service as Principal Private Secretary to every chancellor of the Exchequer from 1921 to 1930 gave Sir James an exceptional insight into British financial policies. Characteristic of this notable Briton, whom the London Economist describes as an administrator of long and varied experience, is the fact that, to accept the Secretaryship of War required surrendering all civil service retirement benefits accumulated over the years.

Grigg was in the British Treasury only two years when World War I called him to accept a commission in the Royal Artillery. After serving in Salonika, Grigg in 1919 returned to the Treasury. He became Principal Private Secretary to Chancellor of the Exchequer Sir Robert Horne in April, 1921, and held the same post under his successors: Stanley Baldwin, Neville Chamberlain, Philip Snowden, Winston Churchill, and in 1929-30 Philip Snowden again. Mr. Grigg then became chairman of the Board of Internal Revenue, a post he held during the years 1930-34. It was in this period that, in 1932, he was created K.C.B.

Sir James' next post was Finance Member of the Viceroy of India's Executive Council (1934-39). He was made K.C.S.I. in 1936. In 1939 Sir James returned to Britain as Permanent Under Secretary of State in the War Office, remaining in that post until he became secretary.

During the war, Sir James visited North Africa, the Middle East, Italy, Normandy, Holland and Germany.

Competitive Pattern in Consumer Credit

By F. R. WILLS*
President, General Phoenix Corporation

Finance company executive traces history of automobile purchase financing, and indicates aid that was given dealers by finance companies in promoting sales. Shows declining profits in automobile financing, but asserts finance companies welcome competition of banks in the consumer credit field. Holds bank competition will affect dealers' operations seriously, since banks will take only most desirable portion of retail paper. Predicts higher rates will be necessary to make automobile financing profitable.

The subject assigned to me covers such a large field that it would be impossible in the limited time allotted to cover the entire competitive pattern in all lines of merchandising. I will therefore confine my remarks principally to developments in automobile financing, which field exceeds all others.

In order to give a better picture of present-day competitive conditions, it might be well to go back some 30 years and follow the developments from 1917 to the present time. As my experience covers this 30-year period, I can recall competitive conditions in 1917, 1918 and later.

In those days there were few finance companies and automobile dealers were pressing the existing companies to finance their business. The dealers had very few, if any, outlets for their wholesale or retail paper. At that time our credit policies were largely dependent on our ability to refinance automobile paper. It was the consensus of opinion among the banks at that time that it would be risky for finance companies to handle retail passenger car instalment paper, but they were willing that we handle wholesale trucks and passenger car and retail trucks. We did, however, reluctantly accept some retail paper covering passenger cars on the basis of an 80% advance and, much to our surprise, this proved to be a desirable class of business, while our experience on truck paper was unsatisfactory.

At that time we did not know as much about down payments as

(Continued on page 3242)

*A paper read before the Northern N. J. Chapter, American Marketing Association, Newark, N. J., Dec. 11, 1946.

Plan to End War Powers Opposed by Rep. Lewis

A proposal by the Republican News, official publication of the Republican National Committee, that repeal of the President's wartime powers be given a major place in the party's platform for the 80th Congress, brought emphatic disagreement from Representative Earl R. Lewis of Ohio, Chairman of a special GOP Committee which is studying possible repeal of the Chief Executive's wartime grants. Mr. Lewis, a United Press dispatch from Washington stated on Dec. 11, declared that it was "neither wise nor desirable" now to declare the war emergency ended. In a letter to House Speaker-designate Joseph W. Martin, Jr., of Massachusetts, he said that repeal of the President's powers at this time would have "far-reaching consequences" which would injure the United States Army, particularly the occupation forces in Europe and Japan. The United Press account, as given in the Washington, D.C. "Post" also had the following to say:

"A blanket declaration of the end of the war would also, by reason of its effect upon the first War Powers Act, force the War Department to abandon its present modernized organization which is based on that act and revert to the outdated organization prescribed by earlier statutes."

Complaining that his committee lacked an adequate staff for a thorough study, he told Martin that more than 500 emergency war powers — many of them granted to the late President Roosevelt immediately after Pearl Harbor—were contained in various statutes.

He said his investigation showed only 46 minor powers could be repealed immediately "without harm to the economy of the country or to the organization and conduct of government."

He recommended that the House Judiciary Committee undertake a new, overall study of the problem as soon as Congress convenes. The Committee will be Republican-controlled in line with last month's GOP congressional election victory.

He made these points in opposition to a blanket repeal:

Repeal Would End Draft

1. The present procurement program of the armed forces is based on emergency powers. Repeal would force the Army to fall back on "extremely limited procurement authority and unwieldy procurement practices."
2. The Army would be compelled to rely entirely on recruiting to fill manpower requirements.
3. The modernized staff structure of the Army would be eliminated.
4. Statutes providing secrecy on patents essential to national defense would be wiped out.

Demands for quick repeal of the President's war powers had been made earlier by many GOP leaders, including Martin.

E. F. Hutton Co. to Admit

E. F. Hutton & Co., 61 Broadway, New York City, members of the New York Stock Exchange and other national Exchanges, will admit Joseph J. Edgerton to partnership on January 1.

Pre-War U. S. Per Capita Income Was at Record High

Dr. Simon Kuznets, in National Bureau analysis of 1919-1938 national income, also finds over one-half of total income was accounted for by unincorporated firms; that upper 14% of income group received 70% of total dividends; and that income flow of goods to consumers accounted for more than 90% of national income.

During the two decades 1919-38, average national income per capita, per gainfully occupied person, per person employed, or per family unit in the United States, was not only one of the highest in the world but the highest in the history of this country before World War II. This is one of the findings presented by Simon Kuznets, Professor at the University of Pennsylvania and a member of the research staff of the National Bureau of Economic Research in a monograph, *National Income: A Summary of Findings*, announced this week by the National Bureau of Economic Research.

Simon Kuznets

To show how this high per capita income was produced and used, Dr. Kuznets traces the "economic process of circulation as reflected in national income and its components — from its origin in the various industries, through its distribution by type and size, to the various categories of use of both income flow and national product."

Differences Among Industries

During 1919-38, the commodity producing industries accounted for 38% of national income; the service industries (governmental, professional, personal, etc.) for 42%; commodity transporting and distributing industries, for 20%. Agriculture, one of the commodity producing industries, accounted for less than 10%.

"The industrial structure of the working force is quite different," Dr. Kuznets finds. During this period almost half was engaged in commodity producing industries, and less than a third in the service industries. Agriculture accounted for slightly over one-fifth.

"These contrasts indicate big differences among industries in income per member of the working population." In agriculture, income produced per person employed was half that of the country-wide average; in secondary commodity production and in commodity transportation and distribution, it was equal to the average, and in the service industries, well above the average.

A relatively large share of national income, well over one-half, was accounted for by industries dominated by unincorporated firms, and a moderate share, somewhat over one-third, by those dominated by corporations. Only 12% of the total was accounted for by government. "Total and service income per employed rise steadily," Dr. Kuznets says, "as we pass from the group [of industries] with a large proportion of unincorporated firms to the industries dominated by private corporations, to those in which corporations are subject to more government regulation, and finally to the public sector."

Distribution of National Income

"The estimates show that of national income produced during the two decades [1919-38], more than 100%, on the average, was distributed in the form of income payments. . . ." The excess over 100% reflects the capital depletion in the depression. "Even in the cyclically prosperous year 1929 the share of national income retained as undistributed net profits by corporations and savings by governments was only 4%." Ordinarily, Dr. Kuznets says, the amount not distributed in the form of income payments is less than 4%, merely a minor fraction of national income.

Roughly four-fifths of national income was distributed largely for personal effort, one-fifth as returns on invested capital, he says. It is possible, however, that if a finer line could be drawn between returns for personal effort and on capital than present data permit, the share representing compensation for personal effort might be somewhat less and that representing returns on property and enterprise somewhat higher.

The report shows that when the population is grouped according to size of income per capita the upper 1% group received, on the average, during 1919-38, 14% of total income payments before deduction of federal income taxes; the upper 5% group received 26%, Dr. Kuznets reports. Because of possible underreporting on tax returns, however, these percentages, the report notes, may underestimate by perhaps as much as one-tenth the shares received by these upper income groups.

While the upper 1% group of the population received, on the average, 14% of total income payments, Dr. Kuznets finds that their average share in total wages and salaries was less than 7%, their share in total dividends almost 70%.

The incomes of the upper groups were much more heavily weighted by dividends and other income from property than those of the lower. Dividends, interest, and rents combined accounted, on the average, for almost half of the incomes of the upper 1% of the population and for more than one-third of the incomes of the upper 5%. For the lower 95% they constituted less than one-tenth.

Flow of Goods to Consumers and Into Capital Formation

"During the two decades 1919-38 the flow of goods to consumers accounted for well over 90% of national income, leaving only 6 to 7% for net capital formation." Of the total flow of goods to ultimate consumers, about 40% was made up of perishable commodities, i.e., commodities lasting less than six months, such as food, drugs, fuel, paper products, etc. An almost equally large share was accounted for by services. These two categories accounted for more than 70% of national income as measured in 1929 prices. Since perishables disappear quickly and consumption of services coincides with their production, Dr. Kuznets points out that a very large proportion of the current net product of economic activity vanishes without leaving a trace in the stock of goods.

Savings embodied in net capital formation, he finds, are accumulated mainly by individuals. During 1919-38 they accounted for more than 95% of net capital formation, and for almost 70% even in the prosperous decade 1919-28. Sample data suggest that these savings come primarily from the upper income groups.

All these aspects of national income and its components, Dr. Kuznets concludes, "are the characteristics of a highly developed industrial, largely urban economy, with a relatively democratic organization of society and freedom of enterprise."

Group Offers 100,000 Shares of Portis Style Industries

Brailsford & Co. and Shillinglaw, Bolger & Co. headed a banking group which on Dec. 16 made a public offering of 100,000 shares of $1 par common stock of Portis Style Industries, Inc. at $6.50 per share. The company is one of the three or four largest hat manufacturers in the country and the financing being done today will mark the first opportunity the public has had to participate in its ownership. It was organized in 1914, and is owned by four brothers, Arnold E. Portis, Henry R. Portis, Lyon Portis and Theodore Portis, each of whom is selling 27,500 shares representing about 25% of their present holdings. An additional 10,000 shares were registered and are being sold to employees of the company. Directors have declared a 50c dividend on the stock, payable Dec. 27 of record Dec. 20.

The company manufactures and distributes fur felt and wool felt hats, cloth caps and leather and wood gloves and mittens for men and boys, and all types of summer hats. Distribution is effected through more than 5,000 customers in this country and Hawaii. Its fur felt hats are made in its plant at Michigan City, Indiana. Caps are made in its Chicago plant at 320 West Ohio St.

The company is operating at capacity levels and now has more orders on its books than can be filled. Production is being distributed on an allocation basis. Last year the company had a sales volume of around $3,675,000, with first six months sales this year estimated at $2,175,000, and net earnings of $323,000 for the period.

G. H. Walker & Co. Will Admit McKnight, Newton

G. H. Walker & Co., members of the New York, St. Louis, and Chicago Stock Exchanges, will admit David W. McKnight and George A. Newton to partnership on Jan. 1. Mr. McKnight will make his headquarters at the firm's New York office at 1 Wall Street. Mr. Newton will be located in St. Louis, 503 Locust Street.

Mr. McKnight was formerly an officer of Argus Research Corporation of New York.

Railroad Securities

Many rail analysts have recently been recommending the securities of Western Pacific, and particularly the preferred and common stocks, as representing outstanding values in the rail field. The common has recovered some 10 points from the low of a few months ago but is still available almost 20 points below the 1946 high, and the preferred has retraced only about a third of the break of 30 points it sustained during the selling wave. With the common on a $3 dividend basis the current return is better than 8% while the preferred affords a return of around 6.4% on its $5 dividend at recent market levels.

After the common has received $3 in any one year the preferred shares equally in any further distribution. This provision will presumably militate against any increase in the common dividend, at least for the time being, but the current rate appears well secured and, together with the road's strong finances and favorable earnings prospects, should warrant considerably higher prices.

In relation to its size and debt structure Western Pacific is financially one of the strongest roads in the country. It emerged from reorganization only a few years ago with fixed interest debt confined to equipments and $10,000,000 of 1st 4s. There were also $21,219,000 of Income 4½s convertible into common stock at the rate of $50 a share. Through a combination of retirements and conversions the Income bonds outstanding had been reduced to $11,807,700 as of the beginning of last May.

In comparison with non-equipment debt aggregating only $21,807,700 the company as of the end of September had net working capital of $21,307,000. Moreover, the net working capital does not include certain reserves against posisble tax liability, deferred maintenance, etc., invested in government bonds. As of the end of last year these holdings amounted to close to $12,000,000.

The preferred stock ($100 par) is outstanding in the amount of $318,502 shares and there are 408,283 shares of common, increased by bond conversions from the original issue of 319,033 shares. In view of the strong treasury position and reserves set up it is generally expected that capital obligations senior to the common stock will be further sharply reduced next year. It would not appear unlikely that the entire balance of the Income bonds might be retired. This would be particularly favorable to the common stock in eliminating future dilution through conversion.

From a traffic standpoint Western Pacific over a long period of years has had one of the most impressive records among the country's railroads. The road has benefited materially from industrialization of the Pacific Coast area and other sections of the west. In the early 1930s an extension into Northern California to a connection with Great Northern was completed. This has been of considerable traffic bentfit to both properties. During the period of trusteeship the main lines were virtually rebuilt. Thus the road has improved its competitive status with respect to through transcontinental traffic. At the same time, property rehabilitation and the installation of new equipment has brought the property to a much higher state of efficiency. All of these factors augur well for a continuation of the favorable traffic trends in the postwar years, and a high rate of earnings.

In recent months the road has been showing considerable progresss in bringing operating costs under control. In the last two months for which figures are available, September and October, transportation ratio averaged just below 31%. For the first eight months of the year it had been around 38%. Allowing for the participating feature of the preferred stock, earnings on the common for the 10 months through October were indicated around $4.15 a share. For the full year the earnings on the same basis should run close to $6 a share or twice the present dividend rate. The traffic outlook for 1947 is highly favorable and with the new rates recently authorized even better per share results are looked for next year than in 1946. The stock sells only about six times potential 1946 earnings.

D. Raymond Kenney With First Colony Corp.

First Colony Corp., 52 Wall Street, New York City, announced

D. Raymond Kenney

that D. Raymond Kenney has become associated with their firm. Mr. Kenney was formerly with C. E. de Willers & Co.

William H. Taylor on World Fund Staff

William H. Taylor, U. S. Treasury monetary official well known in the United States and other countries, on Dec. 16 joined the International Monetary Fund as Assistant Director of the Operations Department. Since returning to Washington from London in June, 1946 Mr. Taylor had been Assistant Director of the Treasury Department's Division of Monetary Research, a post held by him before he went abroad.

With his headquarters in London, Mr. Taylor for two and one half years until June was the Senior Treasury Representative in Europe. During the war he worked on financial and monetary problems associated with the governments-in-exile, with the UK, and with the Allied armies. At the time of the invasion of North Africa Mr. Taylor went ashore with the first troops to direct the handling of invasion currency.

For 18 months in 1941-42 Taylor was in China as Alternate American Member of the Stabilization Board of China. Previously he was with the Treasury in Washington and in academic work at West Coast universities.

At the Fund, Taylor works under Mr. John Fisher, formerly of the Bank of England and now Director of the Fund's Operations Department.

William J. Becker Joins L. F. Rothschild Staff

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—William J. Becker has become associated with L. F. Rotchschild & Co., 231 South La Salle Street. Mr. Becker was formerly with Glore, Forgan & Co. for a number of years.

Pflugfelder & Rust and McGinnis, Bampton & Sellger to Be Formed on January 1st

The New York Stock Exchange firm of Pflugfelder, Bampton & Rust, 61 Broadway, New York City, will be dissolved on Dec. 31 and two new Stock Exchange firms, both of which will be located at 61 Broadway, will be formed by members of the dissolving organization.

Wm. H. Pflugfelder

Sylvester P. Larkin

Patrick B. McGinnis

Hugo E. Sellger

Henry Oetjen

James O'Donnell

John G. Preller

William H. Pflugfelder, Adolph H. Rust, and Sylvester P. Larkin, member of the Exchange, will form Pflugfelder & Rust. Patrick B. McGinnis, Benjamin E. Bampton, member of the Exchange, Hugo E. Sellger, Chas. Warren Caswell, Henry Oetjen, James O'Donnell, and John G. Preller, will become partners in McGinnis, Bampton & Sellger.

Halsey, Stuart & Co. Offers Rail Issue

Halsey, Stuart & Co., Inc., headed a group of investment bankers that made public offering Dec. 18, subject to I. C. C. approval, of $12,000,000 Pittsburg, Bessemer & Lake Erie RR first mortgage 2⅞% bonds, Series A, due Dec. 1, 1996 at 100%. Principal, interest and sinking fund on these bonds are unconditionally guaranteed by agreement and endorsement, secured by the first mortgage of Bessemer & Lake Erie RR. The bonds were awarded to the bankers at competitive bidding Dec. 17 on a bid of 98.8099.

The Series A bonds are redeemable at prices ranging from 105% to par. For the sinking fund, the redemption prices are scaled from 102% to par. Annual sinking fund payments, contingent upon earnings are $120,000 plus a sum equal to interest on all bonds previously acquired for the sinking fund.

Approximately 80% of Pittsburg, Bessemer & Lake Erie RR. common stock and 80% of its preferred stock is owned by United States Steel Corp. and all its properties are leased to Bessemer & Lake Erie RR. for a term of 999 years beginning April 1, 1901. All of the stock of the Bessemer is owned by United States Steel Corp.

Pittsburg, Bessemer & Lake Erie owns approximately 179 miles of road extending principally from Conneaut, Ohio on Lake Erie to East Pittsburgh, of which 171 miles are operated under lease by Bessemer and 8 miles under sub-lease by Union RR. Dividends are paid regularly on the stock of Pittsburg (at 6% on the preferred and 3% on the common) in the total amount of $419,976 per year by Bessemer as part of the rental for the lease of the properties of Pittsburg.

Bessemer is one of the principal carriers of iron ore in the United States, transporting it from Conneaut, Ohio principally to its connection with the Union RR. at North Bessemer, Pa., for delivery to the Pittsburgh district. It also transports large quantities of coal, coke and limestone. Dividends have been paid on the capital stock of Bessemer in each year beginning with the year 1904, through the year 1945, except in the years 1905, 1907, 1908 and 1932.

With Sutro & Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Ernest Ach has joined the staff of Sutro & Co., Van Nuys Building.

Sees a Labor Reaction Against Strikes

Henry H. Heimann, Executive Manager of National Association of Credit Men, holds change of attitude of rank-and-file of labor is good omen and augurs better business and credit outlook. Sees return to qualities of statesmanship in public affairs.

Pointing to a noticeable reaction by the rank and file against strikes, and to the fact that labor leaders are being called to account for work stoppages, Henry H. Heimann, Executive Manager of the National Association of Credit Men, says in his Monthly Business Review for December that 1947 portends a much better overall labor - management relationship. While labor recognizes the benefits of unionization, the head of the credit and financial executives says that the average worker seems convinced that full work at fair pay is much more desirable than long weeks without pay-days during strikes called by ambitious labor leaders. These opinions expressed by more and more of the men who pay the union dues may have a beneficial effect in the months ahead, he declares.

Henry H. Heimann

"There is a genuine recognition by industrialists of their past labor mistakes and they are planning to avoid these in the future," Mr. Heimann says. "At no time in the history of business has so much sound thinking and programming been scheduled, all directed toward a better labor-management relationship and, consequently, toward better production. This is a real asset."

Another improvement named by the credit executive is a return to the qualities of statesmanship in public affairs with a decline in the potency of mob psychology. This recent trend he points out is a possible asset for our nation's economy.

"We will have a good agricultural market for at least two years," Mr. Heimann says. "Agriculture accounts for between a fourth and a fifth of our population and its buying power is tremendous. It is a distinct asset that agriculture now is in a position to buy, and proper investments by agriculture will ensure its holding its own in the more open competition ahead.

"This nation has taken seriously the leadership it has earned or has had thrust upon it. It is earnestly trying to discharge this responsibility. There is a grim determination throughout industry and by many individuals that we must not fail. The effect of this upon the morale of the nation is bound to assert itself.

"There is a recognition that governmental war powers must end and steps in the direction of removing regulations are helpful in building a free atmosphere in which business may breathe.

"The needs of the people all over the world are such that we should use every means to supply them in such a way that our action in this respect will be helpful and not harmful. This situation, a tremendous liability abroad, can be both a spiritual and a business asset for this nation. Leaving out the business value of our meeting this responsibility, the spiritual satisfaction that will come through helping our fellow men will make our very best efforts exceedingly worthwhile."

The recent portal to portal pay decision will have a sweeping effect in many large industrial plants, Mr. Heimann warns. Although this point of contention was first brought up in the mining industry, it already has been seized upon by some labor leaders as applicable to any large plant where the entry gate is a long distance away from the actual work bench. Should this application of the portal to portal pay decision become general, it will add heavy extras on industry's payroll and thus increase the actual cost per hour of production, Heimann warns.

Some of the favorable factors for 1947 were listed by Mr. Heimann as follows:

"First, our great productive capacity could be a real asset. We need trained and efficient sales forces to distribute our goods. We need well-planned credit expansion to develop consumer buying. We need heavy production per capita to insure unit values that will move merchandise. The demand for goods, though quite overstated in many lines, is nevertheless larger than it has been in years. If this demand is supplied, our great productive capacity will be a tremendous asset. It will supply needed wants here as well as in the rest of the world.

"We have labor skill en masse that is vastly superior to that of the rest of the world. This is a distinct asset, if we turn it to full production.

"This nation has ample credit for its postwar production. At the present time we are the only nation that can really afford to export capital, goods and food. If we use credit in this respect with discretion we will do much to stabilize the world.

"We have a confidence born of our participation in the war. It is an optimism that has always been a part of our nation; but the war has confirmed it. We have a group of young men and women who intend to do things and to make progress. Most of our young people are anxious to get started. If they receive recognition and their efforts are appreciated and if opportunities are made available to them, they will pull this nation through. They have demonstrated their ability in the war in a convincing manner."

New Congress Must Abolish Industrial Class Warfare: Rukeyser

The new Congressional majority will have an opportunity next month to remove the legislative causes of class warfare in American industry.

Merryle S. Rukeyser

This view was expressed at Town Hall, in New York City, Dec. 12 in an address by Merryle Stanley Rukeyser, economic commentator for International News Service and well-known lecturer in one of a series of lectures on "Labor and Management—in the Atomic Age."

"It would be a mistake," Mr. Rukeyser declared, "to expect more than negative results from new legislative enactments in the field of labor relations. Harmonious human relations within industry cannot spring from statutes, but must result from the initiative among the various groups in industry. The need is to eliminate the bias in the Wagner Act which discouraged forward looking management from initiating human benefits. The effect of this was to freeze conditions until changes were demanded by the unions.

"Yet the long record of industry through the decades has shown a broad opportunity for enterprise by management in volunteering to improve working conditions.

"Management should be leery of industrial relations counsellors who offer a static formula for industrial peace. No fixed set of circumstances will preserve the *status quo* in a dynamic field of human relations, where nothing is permanent except change. Workers should be encouraged to continue to expect more and better things through the decades in exchange for a week's work, and such economic miracles can be delivered if labor and management cooperate in elimination of economic waste and in the continuous improvement of techniques of production.

"On the other hand, feather bedding, restrictions on output, and slowdowns are anti-social. Those bad habits cheat workingmen in their second role as customers of the goods and services produced by their fellow workers."

Mr. Rukeyser advised management to show sympathetic interest in the current problem of balancing the worker's family budget in the face of inflationary pressures. He said that it behooved management to clarify the causes of inflation, and advised management to induce cooperation by workers and other groups to present a united front in demand at the seat of government for fiscal and monetary changes needed to eliminate the causes of inflation.

Mutual Funds

By BRUCE WILLIAMS

What's Below the Surface?

"No one would think of diving into a pond of water without knowing what's below the surface—and yet that is just what some people do when they buy securities without knowing what's behind their investments. Do you know the resources, the management, the current earnings and earnings trend of the companies whose securities you own compared with competing companies in the same industries?

"Many people buy securities with less care and thought than they would take in buying an overcoat or a car. Yet, their investment purchases usually involve considerably more money and require more careful investigation to avoid mistakes.

"Successful investing requires (1) careful investigation and proper interpretation of economic and political factors in selecting investments and (2) continual supervision of the investments by experienced investment specialists.

"As companies adopt new materials and methods of production to reduce costs and improve their competitive position, some companies gain and others lose in the contest for the buyer's dollar. This competition will increase in many lines as consumer needs are filled, requiring greater discrimination in the selection of investments.

"Do you know whether the companies whose securities you own are gaining or losing in the competition for business or whether they will probably earn more or less next year than this year compared with their competitors? Maybe you do not have the time or don't want to bother with such details. If so, don't you think you should obtain competent investment advice and supervision?" — *From Walter L. Morgan's current memorandum on Wellington Fund.*

Cost of Living

National Securities & Research Corp. analyzes the Government's Consumer Price Index in the current issue of "Investment Timing." The Index is charted from 1939 to date and shows a gradual rise of about 30% in prices up to the beginning of this year and a much sharper rise during the first 10 months of 1946. Average "cost of living" prices are now about 50% above prewar as measured by this index. The analysis concludes:

"Because of the magnitude of the work involved in constructing the Government's Consumer's Price Index it no doubt will continue to be the measure of the cost of living in this country, and hence is likely to reflect the rate of change in the future. With most controls removed and the natural economic law of supply and demand reasserting itself, production should cure shortages. Consequently the price of such items as food and clothing should decline; there probably will be a small percentage advance in rent, with but minor adjustments upward in electricity, gas, and fuel. It seems to us, therefore, that this Index in the near future will reach its peak, and thereafter the trend may be expected to be downward."

London Stock Prices at Peak

A recent letter from the management of **Incorporated Investors** reviews the general business outlook and calls attention to the recent action of security prices in London.

"Common stock prices in London, it will be recalled, declined rather sharply during the month of September. A recovery set in early in October which has continued with only minor interruptions up to the present time. The London 'Financial Times' index of industrial stocks has now recovered all its decline and has exceeded slightly the high record level reached last July. This does not necessarily have any close connection with the level of security prices in this country except that it suggests that at the present time British investors regard a serious international crisis as highly improbable."

Railroad Equipment Stocks

Distributors Group in a current "Railroad Equipment News," summarizes the position of the Rail Equips as follows:

"Shortages of steel, lumber and other materials has made 1946 a bad year for most railroad equipment companies. Earnings, and dividends, fell; and the market prices of their common stocks declined correspondingly.

"Since the total railroad equipment produced in 1946 was less than the amount scrapped, the backlogs of equipment orders remain high. 1947 should be an extraordinarily profitable year for railroad equipment companies and for buyers of their shares at present levels."

Investment Company Reports

Affiliated Fund—After reduction of bank loans from $9,500,000 to $5,000,000 during the fiscal year, Affiliated reported total assets of $25,098,013 as of Oct. 31, 1946. Net asset value of the common stock was $20,098,013. At the close of the fiscal year, investments were 92.0% in common stocks, of which industrials accounted for 76.2% of the total.

Manhattan Bond Fund—Total net assets at the end of the fiscal year on Oct. 31, 1946 were $23,342,758, equal to $7.94 per share. The report shows investments in bonds of 44 different corporations with the largest individual holding representing 5.24% of net assets.

National Securities Series—Aggregate net assets of the nine Series as of Oct. 31, 1946 amounted to $37,671,169. **Preferred Stock** Series and Income Series were largest with net assets of $9,128,399 and $8,861,752 respectively.

First Mutual Trust Fund—Net assets on Oct. 31, 1946 were $4,831,937, equivalent to $5.66 per share.

Dividend Shares—Report for the fiscal year ended Oct. 31, 1946 showed total net assets of $52,304,498, equivalent to $1.42 per share.

Axe-Houghton Fund—Net assets on Nov. 30, 1946 were $5,918,709 divided as follows: cash items, 9.9%; bonds, 1.6%; preferreds, 14.0%; commons, 74.5%.

Bond Investment Trust—Net assets on Nov. 16, 1946 totaled $6,836,896, equal to $105.78 per outstanding trust unit.

Dividends

Incorporated Investors—A dividend of $1.50 of which $1.25 is from net capital gains and 25 cents from net investment income, payable Dec. 24, 1946 to stock of record Dec. 11.

Fundamental Investors—A dividend of 80 cents per share from realized security profits payable Dec. 24, 1946 to holders of record Dec. 12.

Selected American Shares—A dividend of $1.41 per share, of which $1.25 is from net capital gains and 16 cents from ordinary income, payable Dec. 28, 1946 to holders of record Dec. 14.

[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.]

Banks in Consumer Credit Field

By JOHN LUCAS*

Vice-President, Peoples Pittsburgh Trust Co.

Mr. Lucas points out banks became interested in consumer financing only during last decade and describes part taken by American Bankers Association in promoting this field of credit operations. Concludes banks are playing increasing part in consumer credit and must be reckoned with in years to come, but warns they must handle it with intelligence and soundness and refrain from improper competitive practices.

I have been asked to discuss "The Place of Banks in the Consumer Credit Field." Banks had comparatively little of this business as early as 1931, 1932 and 1933, but beginning in 1934 their volume began to expand and reached a peak of $784,000,000 in 1941. Naturally, following Regulation W the volume declined to a low of $311,000,000 in November, 1943. Today the volume is over the $800,000,000 mark. From 1933 to Regulation W, Aug. 9, 1941, other companies, including credit unions, industrial banks and small loan companies, likewise experienced an increase in volume.

John H. Lucas

Consumer credit is a comparatively new subject in American banking although many banks have been engaged in the business for several years—some, in fact, as early as 1924. The real participation began within the past decade and most banks generally have indicated interest in the business in some form or another. The early participants demonstrated that the lending of money, or the buying of installment contracts, payable on a monthly basis, could be profitable if the business were handled wisely. Some of the early participants went into the field of installment finance companies, personal finance companies or Morris Plan bankers for men to head up their their departments. Some few bought the entire control of some of the smaller automobile finance companies in order to obtain trained personnel. This was neither desirable nor permissible in most instances, because of certain legal technicalities. Other banks decided to build up their departments slowly with a head of the department qualified to train their own employees as needed. Following the stock market crash of 1929, banks found it difficult to obtain sufficiently sound commercial loans, competition from other lending agencies arose and the situation became serious from an operating as well as an income standpoint.

Banks had the alternative of buying low-rate government securities and commercial paper or cultivating some of the sources of income neglected in the 1920's, but later available in the 1930's. Government finance agencies were making their appearance and finance companies had encountered the unfortunate 1929-1933 period along with banks. The banker recognized he had in most cases solicited the checking and savings accounts from the public. He made loans when the collateral or financial statement justified it. He also noticed hundreds of checks pass through his hands payable to instalment finance companies, personal finance companies, employee loan companies, Morris Plan banks, credit unions—Federal and State—and even pawnbrokers and unlicensed lenders. In many cases these checks represented payments on instalment obligations, payable over a 12 to 24-month and even longer period of time. Frequently, the lenders were customers of the banks and short-term loans or lines of credit were made available to them, in turn to be reloaned to the bank's own customers, the small borrower or purchaser of an automobile, refrigerator or some other desired article.

*Paper read by Mr. Lucas before Northern N. J. Chapter, American Marketing Association, Newark, N. J., Dec. 11, 1946.

Through necessity of putting funds to work, the bank studied its customer, his borrowing habits and his possibilities as an instalment loan customer, and concluded to go into the instalment credit loan field directly, rather than indirectly through the national lenders whose financial statements justified such ridiculously low rates on their short-term paper. Morever, the bank recognized the possibilities for a higher return on the funds employed and a smaller risk with a diversified lending policy. The survey showed that these new outlets for the use of bank funds could be developed at a profit both to the borrower and to the lending institution. The bank officials had encountered criticism of "sleeper loans" by bank examiners. Many institutions had made policy loans to corporate officers and employees and hesitated to ask for definite payments for fear of criticism by corporation officials responsible for sizable company bank accounts.

Requests for payment often caused the borrower, and the company officer to take an unsympathetic view of the bank's problem. Bankers realized the examiners' criticism was justified, but usually wound up by giving some weak excuse for not insisting on payment or even reduction. This new type of lending with definite prearranged monthly reductions appealed to them. The "sleeper" was eliminated, his paying habits were regulated, he paid and did so promptly at the proper time.

To speed recovery in the early thirties the National Housing Act of June, 1934, created the Federal Housing Administration in order to stimulate business. Banks were encouraged to make loans to individuals for the purpose of remodeling, renovating and repairing homes and places of business. Feeling it necessary to induce banks to do so, the Federal Housing Administration even went so far as to set up a 20% reserve for bank losses—later reduced to 10%—and permitted instalment payments to run for five years and 32 days. A charge of $5 for each $100 original face amount of the not was permissible. The Federal Government recognized that a higher rate should be obtained on a small or modernization loan repayable on an instalment basis than on a strictly commercial obligation. Backed up by their Federal Housing Administration experience and a higher income rate, banks became interested in instalment financing and today approximately 12,000 have plans for or are already engaged in the Consumer Credit field.

Recognizing the growing need and to keep ahead of the times, the American Bankers Association created a special department for consumer credit and took over in 1940 the activities of the Bankers Association for Consumer Credit, to organize three years priors which I helped to organize three years prior. A national committee of nine men, to operate under the direction of the Consumer Credit Department of the American Bankers Association, was appointed. I was a member of the first American Bankers Association Consumer Credit Committee and was later requested by Dr. William Irwin to write the text on Consumer Credit for the American Institute of Banking.

I had conducted several years of research in the subject for my own institution in 1935 and directed our own bank activities in the Consumer Credit field along with our commercial credits.

The banks are playing an increased importance in the Consumer Credit field and must be reckoned with in the years to come. The banks must handle the business with intelligence and soundness and refrain from improper competitive practices. Unless the bank is willing to install proper systems and procedures, either hire or develop competent management and conduct its Consumer Credit affairs along sound and ethical lines, it had better keep out of this extremely competitive field and leave it to those who have been engaged in the business for years and have the "know how" and proper background and training to handle the business on a sound basis.

Milwaukee Company Re-elects Officers

MILWAUKEE, WIS.—Joseph T. Johnson, president of the Milwaukee Company, 207 East Michigan Street, underwriters and distributors of investment securities, announced that at the annual meeting of the company, the officers and directors were re-elected, and, in addition, William G. Martin, Addison Haugan, and Carl G. Hausmann, formerly officers of Morris F. Fox & Co., were elected vice-presidents of the company. The Milwaukee Company in October employed the personnel of Morris F. Fox & Co., which withdrew from the investment business.

Joseph T. Johnson

At the directors' meeting a dividend of $2.50 a share was declared on stock of the Milwaukee Company, payable Jan. 2, 1947.

The directors of the company who were re-elected are Joseph T. Johnson, Alexander M. Kailing, J. A. Keogh, Earl Pryor, Clifford A. Randall, Thomas H. Spence, Herbert C. Wuesthoff and Paul S. Grant.

Campbell, McCarthy & Co. New Firm Name

On Jan. 1, Thomas G. Campbell & Co., 67 Wall Street, New York City, members of the New York Stock Exchange, will admit Albert G. McCarthy, Milton A. Prince, and Philip J. Byrne to partnership, and the firm name will be changed to Campbell, McCarthy & Co. Mr. Byrne was previously with Shoellkopf, Hutton & Pomeroy. Mr. Prince was with Frank C. Masterson & Co., and in the past did business as an individual curb floor broker.

Mary E. Campbell will retire from limited partnership in Thomas G. Campbell & Co. on Dec. 31.

Colmer Committee Sees No Need For Depression

House Special Committee on Postwar Economic Policy sees no need for business slump and predicts a better balanced, constructive and not punitive, governmental policy with respect to labor relations. Says there is nothing wrong with economic situation that hard work and resultant production cannot cure.

Asserting that high industrial production is the key to national prosperity, a special House committee in its final report today strongly urged full-fledged labor-management teamwork to prevent a serious business slump.

Wm. M. Colmer

The House Special Committee on Postwar Economic Policy and Planning, under the chairmanship of William M. Colmer (D-Miss.), declared that strikes have greatly hampered the country's reconversion progress and recommended that Congress take prompt action to achieve a "better balanced governmental policy with respect to labor relations."

"Corrective" but not "punitive" labor legislation, the group added, is mandatory to assist the nation in maintaining high employment.

Chairman Colmer in presenting the report amplified on the Committee's statements with reference to industrial strife. He said: "The repetition of such unfortunate instances as the recent coal strike should not be permitted, since no economic plans of Congress or the business of the country are worth anything if the country is to continue to be stymied by such paralyzing blows as the recent coal strike. Our whole economy, private enterprise system, and the sovereignty of the state are at stake."

The Committee, repeatedly emphasizing that productivity is the real solution for many of the nation's economic problems, called for "active cooperation between management and labor to eliminate immediately the current difficulties so that we can avoid a recession."

The report pointed out that the United States has the greatest buying power and the largest demand for goods in its history. "There is nothing wrong with the country that hard work and resultant production will not cure."

The Committee's Eleventh Report covered a wide field of recommendations concerning the nation's economy, including employment, surplus property, public works, construction, finance, budget, taxation, agriculture, war controls and foreign economic policy.

Created in 1944, the bi-partisan group has conducted extensive hearings and made exhaus-

(Continued on page 3251)

Canadian Securities

By WILLIAM J. McKAY

From the multilateral viewpoint the Canadian dollar figures in the category of scarce currencies. Short range considerations therefore, can provide sufficient justification for the raising of the Canadian monetary unit to parity with the U. S. dollar. Although Canadian policy has hitherto been based on long range fundamentals, the recent departure from a characteristic course of action can well be vindicated as a measure of expediency.

With the exception of this country, Canada is in a generally strong creditor position vis-a-vis the rest of the world and this situation has been temporarily offset only by the extension of foreign credits. For immediate purposes therefore and in view of transcendent importance of currency relations with this country, the Dominion can point to the current advantage of cheaper essential imports from its principal supplier.

Moreover, as the initial stage of operation of the International Fund is approached and multilateral conversion of currencies becomes a practical matter, Canada can now look forward to the exchange into U. S. dollars of a portion of her blocked foreign assets. Also in entering the Fund with its currency at an enhanced valuation, the policy of the Dominion is in line with that of the majority of the other members, who have certainly not erred on the side of undervaluation.

The recent shuffle in the Canadian Cabinet, whereby Finance Minister Ilsley has become the Minister of Justice and the Defense Minister Douglas Abbott has taken over the Finance portfolio, does not suggest any change of financial policy. On the contrary, it might lead to stronger action in consolidating the currency position. The free exchange market in New York has always presented an anomalous situation. The turnover in this market constitutes only a mere fraction of the Dominion's volume of foreign exchange transactions but, its day to day importance in foreign eyes has equaled if not surpassed that of the official market.

In spite of its actual minor role, the free rate rather than the official rate has been considered as the barometer of the Canadian economy and at times it has reflected badly on Canadian credit. The level of free funds now is a case in point. With the official rate at par the free rate hovers rather weakly in the neighborhood of 5% discount.

This state of affairs must be somewhat embarrassing to the Canadian authorities affording as it does a practical although superficial contradiction of their recent step. Consequently, it would be not only in an effort to remove an irritating anomaly but also in line with operational policy in connection with the International Fund if the Canadian dollar in the free market were brought in stricter relationship with its official valuation. In projecting the picture a further stage it would be both practical and logical to foresee ultimately not two markets at varying levels but a single market at the official rate with fluctuations within the limits fixed in accordance with the provisions of the International Fund.

During the week the predominant feature of the securities market was year-end selling on a larger than usual scale. Its impact fell principally on internal bonds and stocks. As a result of arbitraging operations in stocks whereby stocks were exchanged in Canada for bonds, there was a double pressure on internal Dominions and the longest term 3s weakened to 98. The external section was little affected and there was only slight activity with prices mostly unchanged. There was further discussion concerning another effort to market a Montreal refunding issue in this country, but it would appear that the city would be better served in placing the entire operation on the Canadian market.

With regard to future prospects it is likely that the internal section will continue to monopolize the general interest. In view of the widening discount and the inherent exchange possibilities the internal Dominions are beginning to appear in the category of attractive investments.

Holt & Hogan Partners In Thomson & McKinnon

Henry Holt, Jr. and Denis M. Hogan will become partners in Thomson & McKinnon, members of the New York Stock Exchange on Jan. 1. Both will be located in the Indianapolis, Ind. office, 5 East Market Street. Mr. Hogan has been with the firm for many years.

Chicago Stock Exch. Elects New Officers

CHICAGO, ILL.—At the Annual Meeting of the Chicago Association of Stock Exchange Firms and the meeting of the Board of Governors of the Association the following officers and Governors were elected:

Chairman: Reuben Thorson, Paine, Webber, Jackson & Curtis.

Vice-Chairman: Patrick F. Buckley, Harris, Upham & Co.

Treasurer: W. C. Karlson, Lamson Bros. & Co.

Secretary and Assistant Treasurer: Whitney M. Sewart.

Governors, to serve three years: Howard E. Buhse, Hornblower & Weeks; William A. Fuller, William A. Fuller & Co.; William D. Kerr, Bacon, Whipple & Co.; Thomas E. Murchison, Paul H. Davis & Co.

Members of nominating committee—to serve one year: Harry A. Baum, Wayne Hummer & Co.; Ralph Chapman, Farwell, Chapman & Co.; Stephen Y. Hord, Brown Bros., Harriman & Co.; Leonard J. Paidar, Goodbody & Co.; Fred W. Fairman, Jr., Fred W. Fairman & Co.

Colonial Trust Appoints Poitras as Officer

Arthur S. Kleeman, President of Colonial Trust Company, has announced the appointment of Warren A. Poitras as Assistant Secretary and Assistant Treasurer. Mr. Poitras, who recently returned after four years' service as a Special Agent in the Counter Intelligence Corps of the United States Army, is in the Correspondent Bank Division of the institution. He is a member of the Young Men's Board of Trade of New York, and Chairman of the National Opinion Forum Committee.

Mr. Kleeman also announced the appointment of John Dowling as an Assistant Manager in the Foreign Division. Mr. Dowling was for many years in the Foreign Department of the National City Bank, and during the war he served as a Chief Yeoman in the United States Navy.

Curtiss, House & Co. to Admit Rudford Wilson

CLEVELAND, OHIO—Curtiss, House & Co., Union Commerce Building, members of the New York and Cleveland Stock Exchanges, will admit Rudford K. Wilson to partnership in the firm on Jan. 1. Mr. Wilson has been with Curtiss, House & Co. for many years.

B. W. Boas Heads Dept. Of Stanley Heller Co.

Stanley Heller & Co., 30 Pine Street, New York City, members New York Stock Exchange, announce that Ben W. Boas, formerly with Ernst & Co., has become associated with them as manager of their investment department.

Sees Better Oil Outlook Under Free Market

Merle Thorpe, in pointing out a new era of competition, holds petroleum industry is in fortunate position because of expanding use of its products. Urges producers to work for further increase in use of petroleum products through revitalized promotion and sales departments.

The petroleum industry should get ready now for a new era of competition which is in the offing once the hazards of reconversion are overcome and the vacuum created by wartime shortages is filled, Merle Thorpe, director of business development for Cities Service Company, told the Independent Oil Men's Association of New England in Boston on Dec. 4. This new and intense competition, the former editor of "Nation's Business" declared, will be waged among industries seeking to develop consumer acceptance of thousands of new products being prepared for market in our industrial laboratories.

Merle Thorpe

"An expanding economy, and we must have it to maintain full employment and keep the nation solvent; will be achieved only if the public is offered new comforts and conveniences, and is induced to buy them," Mr. Thorpe continued. He pointed to the fact that the greatest industries in the nation today were founded to market products unknown a few decades ago, and they had no easy road to follow. Often they struggled to the point of bankruptcy before a sales-resistant public could be induced to accept what they had to offer.

The petroleum industry was pictured as in a fortunate position, in the face of this predicted competition, if it will only see the challenge and grasp the opportunities it has to offer. Once looked to only as the source of fuel, grease and wax, there is now no limit which can be set on the possibilities of a drop of oil. Already it has produced an amazing variety of marketable products, ranging from dynamite to beauty aids. From it are obtained rayon dresses, freezing compounds, fertilizers, vitamins and velvets, brushes, plastics and plumbing supplies, unbreakable glass, and hundreds of other items, each of which provides the basis for another profitable enterprise.

Each time the nation faces a depression, Mr. Thorpe reminded his hearers, there are those of us who pray for another "automobile industry" to pull us out. But we forget two things. One is that an automobile industry does not spring up overnight. It took years for leaders of the industry to get their products accepted. The second thing we forget is that we can get the same, or better results, by developing a hundred small new industries which will fit more readily and rapidly into the national economy.

The petroleum industry, through research and marketing, has gone a long ways toward building these many small and basic producers, but it can go a great deal further. It has converted waste gases into cooking fats, ammonia, resins, rubber substitutes, ink and paints, antifreeze, glycerine, ether and explosives. Proving the limitless capacities of oil, it has used the same source to counter destruction caused by explosives and inflammables, by using oil to obtain the ingredients for fire extinguishers. Acids, alcohols, solvents, medicines, acetones, insecticides, plastics and detergents, asphalts and road oils are other useful items.

There is great danger, the association was warned, of being misled into complacency by the rosy picture of what industry can produce, and by consumer polls which point to a demand for products. Our planners stress the productive potentialities of the nation, but neglect the most important factor, which is simply that productive capacity is useless unless there is a demand for products. As for the consumer polls, they are concerned only with products already accepted as necessaries or conveniences of American life, and these products will not alone provide the increased national income we are seeking.

Mr. Thorpe urged that the petroleum industry give heed to the story of the food industry. There was a time when this industry thought only in terms of such staples as meat and bulk cereals. It appeared to have a limit fixed by the needs of the public which were dictated by hunger alone. Then the food industry turned to packaging, and to new products. The public palate was delighted by prepared foods in great variety. Developments in transportation and refrigeration were utilized to create and fill a demand for exotic and out-of-season foods. The amount spent for food doubled and trebled, even though the American stomach grew no bigger.

The petroleum industry can duplicate that record, the speaker asserted, if it will put its mind, heart and muscle into the job, and make the creation of a demand for new things its Number One assignment for today. It must revitalize its promotion and sales departments, for in wartime there was no need for selling and these forces were allowed to atrophy. There must be a unit of effort aimed both at research to discover new products and at stimulating a public interest in them which will result in sales.

In doing this the industry will not only be serving its own interests, but it will be contributing, Mr. Thorpe pointed out, to social values, for while our material well-being cries out for this course of action, there is a deeper significance in the spiritual qualities to be preserved in our Republic.

Mr. Thorpe made a strong appeal for the maintenance of freedom of choice in free markets. In these days of planning, he said, there is one way in which a citizen can put any plan to the acid test: Does it arbitrarily create a social and economic order in which the individual will be molded into subordination? Or does it provide for the making of men and women who are themselves competent and well-disposed to exercise freedom of choice in politics and economics? "On this decision," the speaker concluded, "will depend whether the dignity of the individual is to be preserved; whether a great tradition of the American Republic is to be upheld. The times are heavy with apprehension, for if this tradition is lost to America, it will be lost to the world. It will be a tradition without a country."

New York State Mortgage Loans Expanding at Lower Interest Rates

Elliott V. Bell, Banking Superintendent, ascribes lowest interest to limit of 4% on GI Loans and to increasing competition of lenders. Net expansion of real estate loans by state savings and loan associations in 1946 amounted to $46.8 millions.

The cost of mortgage money has continued to decline in New York State this year, thus providing a strong contrast to the rising trend of costs in nearly every other section of the economy, Elliott V. Bell, Superintendent of Banks, stated on Dec. 16 in addressing the midwinter conference of the New York State League of Savings and Loan Associations.

Elliott V. Bell

Mr. Bell said in the face of the largest volume of mortgage lending in this state in a decade, the average rate at which new mortgage loans were made by the state-chartered savings and loan associations declined to 4.35% this year from 4.98% in 1945. In 1942 the average rate on new mortgage loans of these associations was exactly 1% higher at 5.35%.

"The decline in the average rate on new loans this year," said Mr. Bell, "can be laid primarily to two factors. First, the large admixture of GI mortggae loans, bearing a 4% rate, not only pulled the average rate down on its own account but also tended to force the rate down on conventional loans as well. Second, the competition for available loans was keen and lenders were inclined to quote lower rates in the hope of attracting mortgage investments."

After pointing out that the total holdings of mortgage investments of banking organizations of this state would show an increase this year for the first time in ten years, the Superintendent said:

"The rate at which new mortgage loans have been made, however, provides still more striking evidence of the resumption of mortgage lending. The banking institutions under the Department's supervision have recently supplied information in a special report on their mortgage loan activity in the year ended last September 30.

"These institutions made new mortgage investments in 1945 of $330,000,000. In the first nine months of this year, however, the new mortgage loans made amounted to $470,000,000, or at an annual rate of nearly $600,000,000. Thus the making of new mortgage investments has nearly doubled in 1946.

"A breakdown of the figures shows that in the year ended September 30, all classes of mortgage lending institutions under the Department's supervision made $569,000,000 of new mortgage loans. This total was made up of $36,800,000 of FHA loans, $128,000,000 of veterans' loans and $404,000,000 of conventional loans. The large total of GI home loans which these institutions are making is testimony to their public spiritedness. In helping veterans to obtain housing the savings and loan associations made $37,000,000 of GI home loans, or 29% of the total. The associations made $70,000,000 of conventional new mortgage loans, or 17% of the total.

"The data gathered by the Department show that loans on one and two-family dwelling constituted the major share of mortgage lending volume in the year. Loans on the smaller residential properties, of course, represented almost the entire volume of savings and loan associations. The purchase of almost 1,000 new small residences was financed by the associations, in an amount totaling $5,238,000. In addition, savings and loan associations supplied the mortgage money totaling $93,400,000 for 21,839 of existing one and two-family residences.

"The principle of amortization payments is now so widely included in mortgage contracts that a growing proportion of new mortgage lending is required to hold institutional mortgage portfolios on an even keel. Even though new mortgage loans of these institutions totaled $470,000,000 in the first nine months, the net rise in mortgage portfolios amounted to only $175,000,000. Savings and loan associations accounted for $46,800,000 of this expansion in real estate loans outstanding.

"The year in mortgage lending has been distinguished also by the further decline in the average rate of interest borne by the new loans made. The average rate of interest charged on all types of loans during this period was 4.35%, compared with 4.98% in the same period last year. The 1946 rate is a full 1% under the average rate at which the associations made loans four years ago.

"The decline in the average rate on new loans this year can be laid primarily to two factors. First, the large admixture of GI mortgage loans, bearing a 4% rate, not only pulled the average rate down on its own account but also tended to force the rate down on conventional loans as well. Second, the competition for available loans was keen and lenders were inclined to quote lower rates in the hope of attracting mortgage investments to themselves. It is a striking fact that the cost of mortgage money has been declining steadily in a period whose distinguishing economic characteristic has been a general rise in prices."

Corporate Taxation Discussed at December Meeting of NACA

(Brooklyn Chapter)

The Brooklyn Chapter of the National Association of Cost Accountants held another in its series of technical sessions on Wednesday evening, Dec. 18, 1946 at the Park-Vanderbilt Restaurant in Brooklyn, N. Y.

Mr. Leslie Mills was the principal speaker and his address dealt with "Current Problems in Corporation Taxation." Mr. Mills is a Certified Public Accountant and a partner in the firm of O. F. Taylor & Company of New York.

A member of the American Institute of Accountants, he is Vice-Chairman of the Committee on Federal Taxation of the New York State Society of Certified Public Accountants and Director of Program for New York Chapter NACA.

Formerly a lecturer on Federal Income Taxes at Columbia University, Mr. Mills is currently lecturing on Federal Taxation at New York University. During the war, Mr. Mills was in the United States Naval Service and held the rank of Captain, USNR. He also served as a member of the Price Adjustment Boards for both the War and Navy Departments.

Gilmour & Passmore M. Lowenstein Dirs.

Lloyd S. Gilmour, Senior Partner of Eastman, Dillon & Co., and Roy H. Passmore, Vice-President of Guaranty Trust Co., of New York, have been elected directors of M. Lowenstein & Sons, Inc. (textiles).

Mr. Gilmour is a Director of Minneapolis-Moline Power Implement Co.; Farnsworth Radio and Television Corp.; Pacific Western Oil Corp.; U. S. Plywood Corp.; Suburban Propane Gas Corp. and Allerton, N. Y. Corp. His firm, Eastman, Dillon & Co., headed the underwriting group which sold M. Lowenstein & Sons preferred and common stocks last March. This was the initial public distribution of securities of this cotton goods house which had been a family concern since the business was established in 1889.

Mr. Passmore is identified with the General Banking Department of the Guaranty Trust Co., and is a Director of the Kennedy Valve Manufacturing Co.

Robert J. Foley Now With Kaiser & Co., San Francisco

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF.—Robert J. Foley has become associated with Kaiser & Co., Russ Building, members of the San Francisco and New York Stock Exchanges. In the past he was with Bankamerica Co., and Donnellan & Co.

With Edward D. Jones Co.

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, MO. — Fred R. Kinsley is now connected with Edward D. Jones & Co., 300 North Fourth Street, members of the New York and St. Louis Stock Exchanges.

With Merrill Lynch Firm

(Special to THE FINANCIAL CHRONICLE)

KANSAS CITY, MO.—Dean F. McWhorter has joined the staff of Merrill Lynch, Pierce, Fenner & Deane, 1003 Walnut Street.

Cleveland Trust Company 1947 Predictions

In its "Business Bulletin" for December, Bank forecasts nine developments in coming year on basis of current trends.

The December issue of the "Business Bulletin," published by the Cleveland Trust Company of Cleveland, Ohio, after reviewing economic conditions in current years, states "the following predictions seem at the moment to be justified by the evidence currently at hand":

1. The commodity price level will decline in 1947 possibly about 10% from current levels. Deflation, rather than inflation, will be the worry both of political and industrial leaders.
2. The extent of the market decline and the duration of the bear market will be determined largely by the degree to which adverse factors can be constructively and satisfactorily resolved.
3. Money rates will continue to be easy and high grade bond prices generally will hold fairly close to the average prices of 1946. The interest of the government in keeping long term governments at par will be the dominating factor in the money market for most of the year.
4. Agricultural income will decline from 10 to 15% from current levels, and the next Congress will probably be almost if not quite as much concerned with price floors as the last Congress was with price ceilings.
5. Farm land prices will decline and so also will residential urban property. The readjustments in real estate prices will entail mild distress by comparison with that of two decades ago.
6. With construction costs more than 50% above prewar levels the outlook for the building industry is unfavorable. Unless prices and costs can be considerably reduced through elimination of delays the building industry will continue to lag and solution of the problem of the housing shortage will be almost as remote at the year end as its beginning. It goes without saying that the construction industry and all capital goods industries will be enormously affected by the manner in which current labor troubles are settled.
7. The motor car industry will do better in 1947 than it did in 1946, as much as 25% better if it can bring costs under control and once again avail itself of the economies of mass production. Here again the labor factor and, as a result of it, the materials and parts factors, are likely to be dominant.
8. Commercial bank deposits are likely to remain close to the levels of 1946. Public debt reduction will be small, while the trend of loans will move largely with commodity prices and general business. A moderated upward trend of savings deposits is likely to continue.
9. Normal commercial foreign trade will be disappointing. The foreign nations with which our trade heretofore has been heaviest will not be able, except possibly the Dominion of Canada, to rehabilitate their export industries and reestablish their foreign markets. Foreign lending of the kind that sustained our markets abroad in the decade following the first World War is not in prospect.

From the foregoing comments and forecasts a few simple conclusions may be drawn.

The first of them is that the economic fortunes of the nation in the year ahead, and probably for a considerably longer period, will turn primarily on matters of labor relations and trade union policy.

A second and related conclusion is that without greatly increased productivity and lower unit costs it is not reasonable to look forward to full production and restoration of the conditions which make for a rising standard of living.

Problems in Business Recovery

By CARL D. SMITH*

Director of Education, National Association of Credit Men

Dr. Smith lists as problems: (1) labor-management relationships; (2) industrial stagnation; (3) technological readjustments; (4) curbing of inflationary trends; (5) streamlining sales organizations; and (6) reformed fiscal policies. Foresees improved labor situation through remedial legislation and predicts there will be no substantial business recession or industrial stagnation. Points out technological improvements will mean new products, new processes and new ideas, and with more production and balanced Federal budget prosperity lies ahead.

We are meeting here today at the most critical period in our nation's history. We are in the midst of a world revolution. This is not a revolution of guns, fire and battles, but one involving changes in social, economic and political policies and ideals. Here in the United States this revolution is no less forceful and no less far reaching in its importance and in its possible effects than in other parts of the world. We are seeking to re-establish economic order out of the dislocations of the war period. I do not need to remind you of the significance of the problems in business recovery to be met by the business men of this country, for you have these problems on both your front and your back doorsteps. They are realistic problems and you cannot solve them by wishful thinking; they must be met with a full recognition of all of the facts surrounding them.

Carl D. Smith

I shall confine myself to a few of the more pertinent problems which face us in the readjustment of our economy from a war to a peacetime basis.

Labor and Management Relationships

Currently, the most critical and most pressing of all these problems is that of labor and management relationships. For the past 12 or 13 years we have been building up the setting for this problem. We are now reaping what we have been sowing during these years. Today ONE MAN is defying the Government and our Nation. Not only is he defying the Nation but he is endeavoring to tear down the structure of our democratic system. The fundamental question which we face is whether we have or have not learned worthwhile lessons from Hitler, Mussolini and Tojo.

Mr. Lewis lost the strike because he challenged the power of the United States as a nation. This is a dangerous procedure for any one man to pursue, for in challenging the Nation he is challenging 140,000,000 individuals. While he may assume that he has 400,000 individuals backing his challenge, that assumption can be extremely dangerous, both for the one man and his followers.

Mr. Truman for once listened to good advice and his resolution has been of deep comfort to the country. After months of vacillating and appeasement he has demonstrated that his past record has been due not to weakness but to misinformation and misplacing of faith. Even the New Deal Senators who were opposed to the Case Bill a few months ago are now showing signs of impatience to recommence such legislation. They envision the danger to our national economy growing out of the challenge of one individual to the Government and the Nation as a whole. Congress will act and it will act with force and decisiveness.

We have Mr. Lewis to thank for starting the action that is now forcing the trend. The Nov. 5 election pointed out clearly the direction of that trend and what Mr. Lewis has done since Nov. 5 is rapidly speeding the realization of the objectives of the trend toward the clarification of labor-management relationships.

The coal strike has been called off, not in deference to the will

(Continued on page 3249)

*An address by Dr. Smith before the Motor and Equipment Wholesalers Association, Atlantic City, N. J., Dec. 6, 1946.

H. Cassel & Co. Will Admit New Partners

H. Cassel & Company, members of the New York Stock Exchange, 61 Broadway, New York City, will on Jan. 1, admit Frederick Maier-Jung and Helmut Schalla to general partnership and Vera Cassel to limited partnership in the firm. On the same date Karl Nathan, general partner will become a limited partner. Mr. Maier-Jung was formerly with Arthur Wiesenberger & Co.

With Kebbon, McCormick

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—Edward W. Walters has been added to the staff of Kebbon, McCormick & Co., 231 South La Salle Street, members of the New York and Chicago Stock Exchanges. He was formerly serving in the armed forces.

With Sills, Minton & Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—John M. Haberkorn has become connected with Sills, Minton & Co., Inc., 209 South La Salle Street, members of the Chicago Stock Exchange. He was previously serving in the U. S. Navy.

F. S. Moseley Partner

BOSTON, MASS.—Richard K. Thorndike will become a partner in F. S. Moseley & Co., 50 Congress Street, members of the New York and Boston Stock Exchanges, on Jan. 1.

To Be NYSE Member

Transfer of the New York Stock Exchange membership of the late Charles W. Hill to Louis H. Goldman, will be considered on Dec. 26. It is understood that Mr. Goldman will act as an individual floor broker.

With Chas. A. Day & Co.

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS.—Chas. A. Day & Co., Inc., Washington at Court Street, members of the Boston Stock Exchange, have added Robert M. Malpezzi to their staff.

J. A. Warner Adds

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS.—John L. McCarthy has become associated with J. Arthur Warner & Co., 89 Devonshire Street. He was formerly with Hunnewell & Co.

Profits Without Responsibility: An Answer to Mr. Nathan

By SCOVILLE HAMLIN

Economist-Author

In critical comment on "CIO-Nathan Report," Mr. Hamlin contends that: (1) "ability to pay" varies from industry to industry; (2) current postwar profits and sellers' market are temporary; and (3) present boom is based on impermanent inflationary factors. Asserts increased volume of production is key to greater consumption at adequate prices. States industry lacks adequate measure of capital-labor efficiency, and free enterprise cannot carry on if income is apportioned either to labor or capital before its realization.

Acting on the findings of Robert T. Nathan Associates, Inc., the Congress of Industrial Organizations has opened its publicity campaign for a second nationwide round of wage increases. These findings purport to show that "total corporate business," on the basis of estimated earnings for 1947, can support a 25% increase in wages, without raising prices.

Scoville Hamlin

Notwithstanding a substantial increase in profits in some of the mass production industries, there have been notable exceptions, in such important sectors as the railroads, automobiles, and electrical equipment. "Ability to pay" varies from industry to industry and plant to plant. We have further to keep in mind that postwar profits in a sellers' market is temporary; that cheap credit, deficit spending and subsidy aid do not provide a sound basis for lasting prosperity.

The payment of high wages in efficient and inefficient plants; the payment of high wages in advance of a supporting demand for goods, was not a sound basis for recovery in 1930 anymore than it is a sound basis today for bringing efficient plans into full-time operation so that wasteful overhead can be eliminated and costs and prices reduced. A sound increase in prices does not precede an increase in volume. Prices and production to be lasting must advance together and establish the income out of which increased wages and profits can be paid.

While reconversion has not been attended by the immediate deflation with 8 million persons thrown out of work as forecast in the Nathan OWMR Report in 1946, we have done nothing to date to overcome the disparity in production as between war and civilian industries.

Increased Production the Prerequisite

It is widely agreed that increases in real wages depend upon increasing productivity; that as

(Continued on page 3253)

Rule of Men Displacing Rule of Law

By NATHAN L. MILLER*

General Counsel, U. S. Steel Corporation

Former New York Governor, in addressing lawyers' association, asserts we have departed very far from the rule of law and are substituting rules of conduct prescribed by administrative agencies in Federal matters. Says rule of law requiring equality has been violated by statutes intentionally discriminatory, such as agricultural and labor statutes. Claims labor monopolies exist and are restricting and preventing production and sales of necessities, and contends labor anti-injunction statute puts labor organizations above the law.

Judicial work is the search for truth and the application of the law to the facts. It is impersonal. Justice is indeed blind to all but the merits of the cause. The judge who allows nothing else to influence his decisions commands respect and confidence and his fairness soon allays any temporary resentment of the defeated advocate, who can either appeal or resort to the proverbial method of relieving his feelings.

Gov. N. L. Miller

It is trite to say that free institutions can only survive under the rule of law. No one challenges that statement; yet in actual practice we have departed far, very far indeed, from the rule of law, and by law I mean the law enacted by the legislative branch of government or founded on custom, not rules of conduct prescribed by administrative agencies.

I used to read the advanced sheets religiously, but we have today considerably more than a score of daily services to acquaint businessmen and lawyers with the latest rules, interpretations and decisions of administrative agencies, who make, interpret and enforce their own rules with or without legislative warrant.

So much of their work is departmental, that young lawyers do not have the same opportunity today as formerly to become thoroughly grounded in the practice of the law, and it has become more important to know the ropes than to understand administrative rules, which change from day to day and, whether so intended or not, are usually susceptible of quite different interpretations and applications.

In short, the rule of men is displacing the rule of law in Federal matters, and is gradually extend-

(Continued on page 3248)

*Part of an address of Ex-Governor Miller before the Bar Dinner of the New York County Lawyers' Association in honor of the Justices of the Appellate Division of the Supreme Court of New York, New York City, Dec. 10, 1946.

Export-Import Bank and Repayment Problem

(Continued from page 3205)

repay us even for shot and shell which had been expended on the field of battle. Simultaneously, with this insistence, we began a process of withdrawing more and more into our own shell during the 20's and later aggravated matters by raising our tariffs in the midst of a world depression and severe dollar shortage, thus making it virtually impossible for foreign countries to repay us regardless of how much they may have wished to do so. Even before the end of this war a more constructive approach was being formulated by the government, and I find little ground for fair criticism of the initiative and energy which have been displayed in the last several years. We have subscribed wholeheartedly to the United Nations concept; we have seen to it that our Allies are not required to return in kind or in money things consumed or destroyed in our common defense. We have engaged in a comprehensive relief program and we have intelligently moved in a direction which will make it possible for foreign countries to help themselves. First, there was to be UNRRA, a straight gift; then emergency reconstruction lending through the medium of the Export-Import Bank and, finally, the International Monetary Fund and the International Bank for Reconstruction and Development. With the exception of UNRRA, none of these phases of United States participation in world affairs was intended to be on a nonrepayment basis. Accordingly, I welcome this opportunity to come to Buffalo and discuss with you briefly the problems incident to repayment.

Export-Import Bank Loans

Both the Export-Import Bank and you, as American business men, have a direct and vital interest in this problem. The Bank is required by statute to have reasonable assurance of repayment before making any loan. It is the expressed policy of the Congress that, so far as possible consistent with the purposes of the Bank, all loans shall in the judgment of the Board of Directors offer reasonable assurance of repayment. In accord with the broad concept of accepting our responsibility in world affairs on the basis of enlightened self-interest, the Bank has accepted as a basic criterion of making any loan during the initial stages of this program, need first, and has appraised reasonable assurance of repayment as far as possible on the assumption of a revival of world trade on a sound multilateral basis. If our efforts are successful, it is the opinion of the Bank that when such a trade revival occurs, none of the countries to whom we have made emergency reconstruction loans should have any serious difficulty repaying these loans. It is our further view that a satisfactory solution of the import problem must be achieved if the work of the Bank is to prove successful. This basic import problem for the United States is obviously the same as that which faces any country engaged in foreign trade, namely, over the long run it must accept imports of goods and services on a scale sufficient to provide the exchange necessary to pay for its exports both past and present. If we are ever to be repaid for the dollar foreign credits which have been advanced, it will be essential for the American people to reverse long habits of thought and recognize that under our new status as a great creditor nation, an import surplus is normal and desirable.

The long-term dollar financing involved in the rehabilitation endeavor may reach a total, during the 1945-50 period, of $15 to $20 billions. This includes Export-Import Bank credits of about $3 billion; the British loan of $3¾ billion; surplus property and post-V-J Day lend lease credits of perhaps $3 billion; International Bank credits of up to $7½ billion; along with private loans and direct investments abroad.

Long-term dollar lending of this magnitude will mean average annual service charges of around $1 billion throughout the 1950's and 1960's. From the standpoint of the borrowing countries, this means that they will have to develop an export surplus of approximately the same amount to meet the service charges unless this country provides them with the necessary dollars through continued private lending and direct investments abroad on a corresponding scale. From the standpoint of this country, this means that unless borrowing countries can develop such an export surplus they will either have to default on their obligations to us or drastically curtail their future imports from this country.

U. S. Foreign Trade Patterns

There are, basically, two patterns of national behavior on the part of the United States, the choice of which will largely determine whether or not and to what extent our loans will be paid back. They are:

First—We can continue indefinitely to lend abroad and in this fashion provide dollars on a scale sufficient to avoid a **net** repayment problem and thus postpone the day of reckoning.

Second—We can encourage the development of an increased flow of imports into this country sufficient to enable the borrowing countries both to meet the service charges on their long-term obligations to us and also to continue to buy the products of this country on a scale essential to their and to our welfare.

I find it hard to believe that many Americans would consciously favor sacrificing our export interests or encouraging an indefinite continuance of foreign lending with little prospect of eventual repayment merely to curtail an increased flow of imports into this country. The only real hope I see for a revival of real world trade, the re-establishment of an effective multilateral trading system, and the solution of the dollar repayment problem lies in the expansion of this country's foreign trade, both on the import and the export side, and the eventual development of a normal import surplus. Our foreign trade percentagewise may be small. It may be only 5, 7, 9% but it is my conviction that it represents the marginal difference between creating a climate in which we can have full employment, and a rising standard of living, or going backwards to a period of a lower standard of living with less production of goods.

Expansion of Imports

The question that immediately comes to mind is: Will it be necessary to take positive steps to insure an appropriate expansion of imports or will such an expansion take place more or less automatically during the postwar period?

There are several factors operating towards an automatic increase in imports:

First, travel expenditures abroad should increase substantially in the postwar world if for no other reason than the fact that our national income has risen so substantially above pre-war levels. Some argue that this factor alone will solve our import problem; in any event, it seems very likely that this will turn out to be the most important single source of extra dollars for foreign countries.

Secondly, imports of raw materials should be at substantially higher levels as a result of higher national income and the wartime depletion of domestic supplies of many such items. Who would have thought, for example, that copper, lead, and zinc would ever have been in short supply in the United States?

Thirdly, imports of luxury and semi-luxury items, non-competitive or only partially competitive with United States products, may rise substantially with high postwar national income.

As against these considerations—although they clearly presage a larger total volume of imports in the postwar period than in the past—we must bear in mind the fact that the same circumstances of high United States national income and demand for foreign products will set in motion as great or even greater demands in foreign countries for U. S. products. Experience has already demonstrated that foreign customers will buy American goods up to the full limit of their dollar resources. It has been the relative shortage of dollars abroad and not lack of demand for American goods which has operated since the late 20's to restrict the vigor and growth of our natural export industries. Indeed, foreign countries have tended to buy U. S. goods beyond the limit of prudent financial management. The pressure to do this will be greater than ever until the ravages of war have been repaired.

Because of the above considerations, it is my conviction that we cannot afford to sit back and rely upon a fortuitous combination of circumstances to bring about an increase in imports sufficient to achieve equilibrium in our international balance sheet. I feel, instead, that we should take positive and vigorous measures to ensure an import surplus sufficient to enable foreign countries to service their dollar obligations and still continue to buy our exports in large volume. However, I am quite certain in my own mind that it is private industry and not government which must undertake the leadership in the expansion of imports. Foreign trade, because of its pioneering and romantic nature, lends itself to the best in the American tradition of private enterprise. It is in this field, perhaps more than in our domestic production, that the U. S. opportunity lies to demonstrate to the world the true achievements of the American way of life.

Reduction of Tariffs

I share the opinion that the principal single step that can be taken in this direction is for us promptly to reduce our tariff barriers within the framework of the authority granted by Congress in the Trade Agreements legislation. There has never been a more appropriate time for tariff reduction than now. The sooner such tariff reductions are undertaken, the more effective in promoting imports they are likely to be. As a result of the war, many of the goods on which it would be appropriate to lower tariffs are not yet back in production. Furthermore, there is a much greater flexibility in the price structure during the immediate postwar period. Under these circumstances, an increase in imports would not be at the expense of domestic production. The effect of tariff reduction would be, not to contract current domestic production but rather to minimize expansion of capacity in our less efficient industries. Our protected industries would, in my opinion, benefit from a move which caused them at this opportune time to diversify their production and direct their plans for expansion towards new lines of output. If, however, tariff reductions are delayed too long, internal prices, costs and production will gradually have adjusted themselves to the existing tariffs, and any tariff modification thereafter will be injurious to specific domestic interests and unlikely to be feasible. While this may appear to be inconsistent with my earlier assertion that it is private industry and not government which must take the lead in expanding imports and now I am advocating a change in tariffs which must, of necessity, be achieved through government action, I do not think there is any real inconsistency because I am certain all of you agree with me that neither Congress nor any agency of government is likely to work actively along these lines unless it has the wholehearted support of a group such as this.

Policy of Export-Import Bank

The Export-Import Bank has endeavored faithfully to follow the mandate of Congress that we should supplement and encourage and not compete with private capital. The policy of the Bank is directed squarely to returning trade, wherever possible, to private channels and to this end it is avoiding wherever possible the government-to-government credits in favor of so-called exporter credits in which domestic suppliers participate. But our whole objective will be defeated if private capital is not better organized than it is at present to further our activities. The period of abnormality is gradually drawing to a close. I suggested recently in an address at the National Foreign Trade Convention in New York, the possible desirability of private Export - Import Banks, trade associations, or finance corporations which will aid the Export-Import Bank of Washington in its endeavors. I am confident American business ingenuity will be equal to taking over from the government the additional burdens war has created.

It is my earnest hope that we can reach and maintain agreement on the essentials of our foreign economic policy on the same bipartisan basis free from the realm of party conflict as on our overall policy. I fully agree with the editorial statement in the New York "Times" of Nov. 13, that "the liberal trade policy of which the Hull reciprocal trade agreements may be said to be the embodiment represents neither Democratic nor Republican doctrine. It represents, rather, the doctrine of free enterprise in its international application as developed over the years and reinforced by the world's experience between the two great world wars." Times and conditions have fundamentally changed. It would be the height of folly to allow the old battle cry of "protectionism" versus "free trade" to serve as the basis for disrupting along purely party lines the well-conceived foreign economic policy through which this country is actively participating in the affairs of the world.

Securities Salesman's Corner

By JOHN DUTTON

Has Anyone Seen An Investor Lately?

As long as the high tax rates which now apply to those in the income groups ranging from $10,000 upward are levied by a politically, class conscious government, investment in this nation's productive enterprise will be seriously retarded. We are not a nation of investors today—we are primarily gamblers for "price appreciation." Most people who buy securities don't know enough about speculation. The majority still insist upon buying stocks when everybody else is buying them. They invest when stock prices are reaching peak levels. They too often sell out when prices are low. But the SEC prates about protecting the investor. The NASD also conducts a dog watch over its thousands of member securities dealers throughout the country, so that they won't increase their mark-ups a fraction of a percent above some arbitrary amount that its officers think is proper.

Meanwhile some overrated and overpaid movie actor in Hollywood organizes a phony corporation and produces one picture. If it is a success he liquidates his shares of stock, takes his profit and calls it a capital gain which is subject to a 25% tax instead of the 80% he should pay under the law. Everybody is nuts—including the United States Federal Revenue Collector!

What do you think has happened to the individual investor who used to buy from two to five bonds a month? What has happened to the bond salesmen who used to carry a rate book and who called upon private investors and sold them bonds which would yield 5% BEFORE TAXES. The bond salesmen you see today are those who call on the banks, institutions and insurance companies. The United States Government and its punitive tax rates have put genuine American investors out of business. Who can save enough out of his earned income to buy three to five thousand dollars worth of bonds a month today? If you are in the higher income brackets why buy a taxable bond that will yield 3% before taxes? You won't have enough income left after paying your tax to buy tobacco for your pipe. So managed money, low interest rates, New Deal financial magic, and the abortive, punitive taxation levied against those who work the hardest, think the straightest and create the most, has finally laid the American investor low. He's a stock gambler now AND EVEN THEN A HOG HUNGRY TREASURY TAXES HIM TWICE. BEFORE HE GETS HIS DIVIDENDS, AND AFTER HE RECEIVES THEM.

Then if the stock market starts to advance and the poor chump begins to see some capital gains for a change, another character called Eccles runs in all out of breath and tells him that it ain't proper for him to make money. This Eccles fixes it so that he can't borrow money on his stocks from **anybody to buy more stocks.** In the entire country there is no other kind of property which the great all-time sucker called the American stock buyer may own that he can't use as collateral. **Only his stocks which he bought and paid for with his own dough** are not good collateral. Eccles hits him from one side and the U. S. Treasury from another.

Meanwhile, this courageous individual who buys stocks is asked to invest in American industry in order to create jobs and wealth and prosperity. The politicians tell him it's good for the country and the labor leaders make pious speeches about their faith in the free enterprise system. But wherever he looks he sees nothing but organized piracy, aided and abetted by a horde of spineless politicians, whose main concern is to see that they get elected just once more before the whole country blows up in one general free for all, with Phil Murray in the White House, John Lewis running the Supreme Court and Henry Wallace singing "hallelujah brother we plowed it under at last."

The IBA has just finished another convention. We also have the National Association of Securities Dealers, the National Security Traders Association, the Customer's Brokers and their Association, the New York Stock Exchange, and other financial organizations. Isn't it about time that someone got up and asked the new Congress, "HOW ABOUT PROTECTING THE AMERICAN INVESTOR?" **Doesn't he have some rights too?**

The Institutional Investor in the Dynamic Century

(Continued from page 3205)

Security Analysis

Much of investment procedure seems to me to have a curious unreality, or even irrelevancy to operations involving so much of time with its dominant characteristic of erosion. The preponderant investment procedure is security analysis or its equivalent in mortgages. Security analysis deals with relatively short-term considerations — recent balance sheets, income accounts, present position of product in present and recent markets, apparent capacity of existing management in present environment, the present value of property. Clearly such analysis is important and necessary, and I would not for a moment suggest that it be reduced. But at its best it is a short-term technique, and relevant only to a small fraction of the time span which the preponderant part of investment covers. Indeed, the authors of the best book on security analysis say in their preface candidly that "the determination of the future prospects of an enterprise" has "received little space, because little of definite value can be said on the subject."[3]

This premise that the investment technique is basically not compatible with the investment function suggests that a reconciliation is needed. But the technological and other requirements of our society provide no basis to believe that the time span of investment can be shortened. The only possibility, as I see it, is the development of techniques consistent with the time span of investment.

Any exploration in this direction quickly raises the question of what other long-term commitments are made in this economy and how they are handled. The outstanding one, and indeed the only one I know with a time span at all comparable, is the underwriting of life values by life insurance companies. And the technique of handling these commitments of long time span is vastly different than those used in investment. Of course, life underwriting uses an analogous procedure to security analysis: it considers the present physical and moral qualities of the applicant and checks the past record, usually giving attention to a longer past record than does security analysis. But this is only the beginning instead of, as in security analysis, the complete job.

Life value underwriting applies this information to carefully tabulated experience, covering a long period of time, showing, for groups of persons with such characteristics, what the risk is. Having thus determined the risk from experience, a charge appropriate to that risk is made, and reserve systematically established and maintained to cover the risk. Under this procedure the nature of the technique and the nature of the operation are consistent. The results of this handling of commitments with a long time span have, beyond question, been vastly superior to those obtained in investment with its incompatibility between techiniques and operation.

Investment Long-Term Information Lacking

In the present state of knowledge, long-term information on investments analogous to the mortality table is lacking. Hence there is no systematic way to determine charges appropriate to risks, nor to establish reserves measurably suitable to risk. Some contend that there is no such regularity in investment as in life, that far more variables exist in investment than in life, and that no device analogous to a mortality table is possible in investment. Clearly there are dissimilarities, but I cannot help but wonder whether the men who were groping with the problems of life insurance long ago found in the then undeveloped state of knowledge any more assurance of regularity, of measurability and of limitation of variables than investment men find today.

What can be said positively is that a careful and systematic study of human life has produced useful and reliable mortality tables on life, but that investment and mortgage men have not even tried to develop a comparable technique. They seem to share the view of the fiction writer, Arnold Bennett, who says in the preface to "The Old Wives Tale": "I hated, and I still hate, the awful business of research." And it can be added that the results in investment have been vastly inferior to those obtained in life underwriting.

Fortunately, from this point of view, studies are now underway to try to fill this investment deficiency. The National Bureau of Economic Research, with the support of banking, life insurance and other interested groups, under the Executive Directorship of Dr. William J. Carson from your own University of Pennsylvania, is systematically and scientifically compiling and analyzing investment experience in both securities and mortgages. In my opinion, the undertaking of these studies is the most significant development ever to occur in investment, and they will prove over time to be of quite extraordinary significance, marking the first major advance in the investment sector against "the Tyranny of the Unknown."[4]

Lack of Suitable Investment Technique

But whatever the outcome of these studies, I submit that the greatest investment problem is the lack of a technique suitable to the nature of the operation. So long as investment attempts to cover time distances of airplane dimensions with a technique of only a bicycle range, it is not unlikely that results will be something less than ideal.

Let me try to make the point of need for a more appropriate technique in a different way. Will you step with me into Mr. H. G. Wells' time machine? Let's go back for half a century, and see what investment problems might have looked like to us then. After all, half a century isn't so long in the time span of investment, and perhaps some useful perspective can be gained by sitting a little while at a different point in time.

Fifty years ago in 1896 there were also securities outstanding for investment people to consider which stretched far ahead. For example, 50 years ago tonight, our predecessors would have looked at a market which contained, among other issues, the West Shore Railroad Company 1st 4s to mature in the year 2361 and which already had been outstanding for 10 years. They would have seen the East Tennessee, Virginia and Georgia Railroad Consolidated 5s due in 1956. They would have observed the Southern Railway 1st Consol. 5s brought out a couple of years earlier, due in 1994. They would have seen the Texas and Pacific 1st 5s due in 2000 and the Edison Electric Illuminating Company of New York 1st Consolidated 5s due in 1995. All these issues, you will note, had more than 50 years to run, just as many of the issues now outstanding have 50 years and more to go, and you will realize that all the issues are still extant—though others of a long span then outstanding have since departed this life—often by a long and agonizing death. The West Shores, incidentally, at that time were yielding 3.74%; the East Tennessee, Virginia and Georgia, 4.67%; the Southern Railway Consols., 5.44%; the Texas and Pacific, 5.85%; and the Edison Electrics, 4.70%. Now, had we been meeting at that time, what would have been indentified as the significant investment problem?

First, money would have been of much concern. A period had just ended in which the Treasury intermittently ran short of gold necessary for its position and in which it had had to appeal, yes, even beg, for help repeatedly. A political campaign had just ended in which gold was repeatedly denounced and in which one Presidential candidate had closed his most famous speech with the classic passage, "You shall not press down upon the brow of labor this crown of thorn. You shall not crucify mankind upon a cross of gold." But this meeting then would probably have felt reassured that all such heretical ideas had been finally and forever buried with the election of McKinley and the victory of the Grand Old Party. In fact, celebration probably would still have been in progress on Dec. 10, 1896, of the great triumph of virtue. Probably no one would even have suggested that the idea of monetary management was still loose in the country, still firmly held by millions of persons and that it was by no means dead and buried. And probably no one would have suggested that there were coming money panics that would rock the country to its foundation, that there was coming a central bank which would alter most concepts of banking then held, that there were men alive presently to win dominant influence and to castigate gold as a useless token and do all manner of sundry and diverse things with it beyond the imagination of the then feared William Jennings Bryan. Yes, on Dec. 10, 1896 money probably would have been identified as one of the significant investment problems, even though the wildest imagination would not have approached what was to come well within the period of the East Tennessee, Virginia and Georgia issue—to say nothing of the West Shores.

Secondly, this discussion 50 years ago probably would have referred to Mr. J. P. Morgan's conferences with the President and the Treasury over the recent years and his tremendous efforts to aid the Treasury. But the relative importance and power of the Treasury and Wall Street would have been viewed very differently than now. Some attention probably would have been given to the action of the Supreme Court just a year earlier in declaring unconstitutional that device for the redistribution of income and wealth called the income tax. And something might have been said about Mr. Cleveland's use, only a couple of years earlier, of the Army to break a railroad strike. Yes, government probably would have been identified as a significant element in investment. No one, however, in any likelihood would have had any vision as to how tremendously important government was to become, of the agonies to come from the trust-busting campaign of that young Theodore Roosevelt, or from that radical college professor Woodrow Wilson's Square Deal, to say nothing of the income tax and labor and the New Deal—long before the maturity of the Texas and Pacific 1st 5's—to say nothing of the West Shores.

Thirdly, someone might have raised a question about the revolt that was going on in Cuba, or the

3 "Security Analysis," Graham & Dodd, Whittlesey House, 1934.

4 Phrase from Dr. Harlow Shapley, "Status Quo or Pioneer," Harpers, October, 1945.

Italian invasion of Ethiopia and the utter route of the Italians at Adowa earlier in the year. Someone might, though probably would not, have made a sarcastic remark about the final bankruptcy of the French effort to build a canal in Panama and of the appointment by Congress of a commission to study the very visionary possibility of a Panama canal. But the chances are that world affairs would have attracted little, if any, attention in discussion as an investment problem. And almost certainly, not even the most visionary would have contemplated the possibility of two world wars which would shatter the entire established world order, or the emergence of the United States as one of the two great world powers with a fleet in the Mediterranean, with troops in China and the Philippines, with membership in a world confederation—all long before the maturity of the Edison Electric Illuminating 5's, to say nothing of the West Shores.

Fourth, meeting in 1896 there might have been some talk about the western frontier, but only some accidental student of population would have noted that the northern states in the aggregate just then were becoming preponderantly urban. The census of 1890 showed the North with more than 50% of its population as rural, but the census of 1900 showed the balance to have shifted. Probably no attention would have been given to any decline in the rate of population growth in the United States, though we now know it to have been underway. But almost certainly the fact would not have been noted or even comprehended that 'ere long the great majority of the entire population of the United States would live in cities and towns instead of on the farm, with all the economic, social and political developments that a landless urban proletariat would bring and with which 50 years later the nation would still be groping with remarkably little success. The effect on investments based on real estate of the declining rate of population growth and the great regional shifts of population, the fact that these would mean that, as time passed, population growth could no longer be trusted to validate, to bail out in time, any real estate investment except the most extremely imprudent, could hardly have been grasped. The simple fact could hardly have been realized that the economy which had always been preponderantly agricultural would be gone and replaced by a strange society highly urbanized long before the maturity of the Edison Electrics—to say nothing of the West Shores.

Fifth, the term, business cycle, would probably not have been in the terminology of a meeting on Dec. 10, 1896. Booms and slumps would have been a familiar phenomena in the '90's, of course. But that business in the United States was, and was to be, subject to fluctuations from peaks to valleys, from prosperity to depression at not infrequent intervals and to be aggravated by wars, international developments, monetary management and a host of other factors would not probably have been conceived. Indeed, nearly 20 years were yet to pass before a brilliant student, named Wesley Mitchell, was to write a book at the University of California which would, in due course, revolutionize our thinking. None probably would have dreamed of the economic, the social and the political significance business cycles were to come to hold long before the maturity of the Southern Railway Consolidated 5's— to say nothing of the West Shores.

Finally, meeting 50 years ago tonight, someone conceivably might have muttered about strange items sporadically appearing in the news. There might have been a little talk of the first showing of a motion picture in Richmond, Indiana, two years earlier. Perhaps someone might have observed the freakish fact that a fellow named Langley had just made the first successful flight for 3,000 feet of a heavier than air steam powered model plane. Or that a nut, called Octave Chanute, had built a five-decker glider. There might have been note of a news item that Andrew Carnegie had just installed in his mansion in New York a stove operated wholly with electricity. Maybe someone would have observed that a strange guy, named Marconi, had obtained his first patent in the United States and had in England sent signals without wires for a distance of a few feet. Maybe the automobile would have been noted, though it was, of course, a freak and there were less than 90 cars in existence at the time, though there were four million bicycles. George Whitney's patent of a light steam engined motor car and George Seldon's patent the preceding year of the idea of using an explosion engine in a road vehicle could have been observed. And there might have been a comment on the first automobile race run on the snow outside Chicago two years before. Perhaps technological change would have been listed as an investment problem. But is there any remotest likelihood that the meeting could have envisioned the development of these freaks to such prominence, or should I say dominance, in the life of the nation and the world? Or the possibility of so vast an array of technological development as we now know has happened, all far in advance of the maturity of the Texas and Pacific 1st 5's—to say nothing of the West Shores.

By the limitless wisdom of hindsight, in short, we can see that a meeting 50 years ago tonight might have made a list of six major investment problems—money, government, world affairs, population, the business cycle and technology—likely to prove highly significant well within the time span of investments then being acquired.

The meeting in 1896 might have summarized the discussion by saying that the outstanding investment problem would be how to operate in an environment to change so rapidly as the six items listed would cause. And it might have been said that the investment problem in its broadest sense was how to integrate investment—difficult enough itself—to the other operations of institutions for which really investment is only the servant. Because these changes would certainly have been expected to bring great shifts in the nature of liabilities of services and of responsibilities. Investment not only has to cope with at least some success with its own problems, but must always orient itself to serve the major purpose of the institution in which it operates, be it the provision of life insurance, of banking services or of trusteeship.

Investment Management Essentials

Perhaps the meeting in 1896 might have spelled out in a little more detail the conclusions that might, had the group been very wise, have been drawn. These might have fallen under eight headings:

1. Investment management must contemplate rapid change and continuance of change.
2. Investment management must be chary of any concept of normalty or of stability and thus of buying things to put away.
3. Investment management needs a vast enlargement of its scope of analysis, an expansion of perspective far beyond attention just to balance sheets and income accounts.
4. Investment management must develop new standards of valuation for balance sheet purposes in a world to fluctuate and change so violently.
5. Investment management should question the validity or the desirability of extensive fixed, rigid indebtedness in an economy subject to so much fluctuation (though if we had been lawyers, we would not have made that point because such a question, if sufficiently pursued, would deprive us of a tremendous amount of reorganization business).
6. Investment management and institutional management need to reexamine their responsibility—how would they operate to encourage or discourage, or adjust to, or serve or disserve these tremendous changes underway or in prospect.
7. Investment management must make much more careful and adequate allowance for risk of loss.
8. And, finally, investment management must, I think we would have said, place much more importance upon the quality and ability and competence of the management of the concerns in which investments were made.

Now, benefiting from the illimitable wisdom of hindsight, I have constructed what might have been a very wise discussion 50 years ago to cover only a part of the time span of the Southern Railway 1st Consolidated 5's—and only a tiny fraction of the West Shores. But you will, of course, be aware by this time that I am using a hypothetical 1898 meeting, only as a technique for organization of this paper, a technique by which I hoped to keep at least some of you awake at least some of the time. Actually, you will by now have realized that the conclusions suggested for 1896 are the conclusions that I suggest for 1946. They certainly would have been valid 50 years ago, and I submit that they certainly are valid tonight.

Changes in Last 50 Years

They were valid then and they are valid now because the entire 50 years is a most extraordinarily dynamic period in the history of society—one of the most dynamic in the whole 6000 years of recorded history! Perhaps, more conditions have changed more in the 50 years since 1896 than in the whole period from the time of Hammurabi to the time of Henry Ford. And in the view I have, we are but in the midst of, nay perhaps only in the earlier phases of, this period of tremendous and incredible change. This is the view of so experienced a person as Mr. William M. Rand, the President of Monsanto Chemical, who recently wrote, contemplating "a living standard for our children as advanced and as different from our own as our own is from the stone age. In one generation," he continued, "indeed in a single decade, American industry has opened material vistas for us greater than the combined material achievements since the beginning of civilization."[5] And Mr. David Sarnoff, President of the Radio Corporation of America, says: "I believe that the realities of the years to come will outstrip the promises of the present day."[6]

This society has to hammer out a revised and perhaps a new concent of the nature and function of money. It must develop a new concept of the role and function of government and about international relations. It must find a concept to cover the organization of a society consisting argely of an essentially landless proletariat living in cities. The emphasis on full employment—with the British Government formally committed, and the American Government morally committed, to the realization of perpetual full employment—shows the necessity for a new examination of that phenomenon called the business cycle. And the tremendous competition now clearly in prospect between forms of energy, among the various fabrics, between all forms of materials both natural and synthetic, between the many forms of transportation, among the many forms of amusement and entertainment — to mention only a few—give a hint, if only an inadequate one, of the tremendous significance of fast-moving technology, likely to be fed, according to the President of Harvard University, by "a flowering of scientific work in this country the like of which the world has never seen before."[7] The hard, continuing, changing job of understanding and coping with these developments, of changing with them and adjusting to them is the problem alike of institutional management and of that servant of institutional management, investment management.

That these powerful, surging, turgid forces, sweeping through our society, will affect every form of investment can hardly be doubted. Mortgages, obligations and equities alike will be rocked by them in the years to come. And useful as it is, even the most astute security analysis can hardly be expected to cope with the meaning to investments of these forces over a long time span—or even a short one. And I am certain that no economist's crystal ball can show the answers with any reliability.

Position of U. S. Bonds

Of course, in the shorter and simpler view of our problems, one can predict with safety that obligations of the United States Government will be a large part of institutional assets. One can predict with virtual certainty that the next several years will see a significant increase in the volume of real estate mortgages. One can predict with great confidence that the volume of public and private security issues of non-governmental obligors will average much higher in the next decade than during the last 15 years. One can have little doubt that the volume of municipal flotations will be larger. In short, one can say in the narrower view of investment prospects that the volume of obligations which investors will examine and from which they will choose, will be larger. One can predict that amortization will be far more prevalent so that the turnover of holdings will be more rapid than in past experience, other than in the great refunding associated with the changes in money rates of the last 15 years. And one can predict with some assurance that the long-term market interest rate is likely to change but little, at most, for at least a considerable time to come.

But the really significant investment problem is not volume. And the really significant investment prospects do not have to do with types of issues and refundings and interest rates. The major problem is, I believe, to find a new technique compatible with operations, and the major prospect is change, change, change, change. The extent of future investment success will be determined by ability to fill this need of this dynamic century of change in which we live—in which we commit funds for decades into the future—to say nothing of the time span of the West Shores.

5 "Industry," November, 1945.
6 Radio Corporation of America, 1945.
7 "New York Times," Nov. 3, 1945.

Life Ins. Institute Admits Three Ins. Cos.

The applications of three life insurance companies for membership in the Institute of Life Insurance were approved by the Board of Directors at a meeting on Dec. 10, bringing to seven the number of companies elected to membership this year. The membership now comprises 132 U. S. life insurance companies, representing approximately 87% of the assets of all United States legal reserve life insurance companies. Ten Canadian companies also are members. The companies admitted to membership on Dec. 10 are the Atlantic Life Insurance Company of Richmond, Va., the Great American Reserve Insurance Company of Dallas, Texas, and the Hoosier Farm Bureau Life Insurance Company of Indianapolis, Ind. The four companies admitted to membership earlier this year are: The Life Insurance Company of Virginia, Richmond, the Mutual Benefit Life Insurance Company, Newark, N. J., the Northwestern Mutual Life Insurance Company, Milwaukee, Wis., and the Standard Life Insurance Company of Indiana, Indianapolis.

Costello Resigns from RFC

William C. Costello, who went to Washington from Houston, Tex., with Jesse Jones in 1932, has resigned from the Reconstruction Finance Corporation to enter private business, it was stated in Associated Press advices from Washington on Dec. 2, which said that he will open offices in Washington and Houston for the J. A. Zurn Manufacturing Co., Erie, Pa.

"Our Reporter on Governments"

By JOHN T. CHIPPENDALE, JR.

With the December financing out of the way, the money markets are now assuming more normal proportions. . . . The mid-month financial operation was taken very much in stride by the government market, with larger volume and rising prices being very much in evidence during several trading sessions, prior to the redemption of the 1½% notes. . . . Although the technical position of the market has been on the mend for some time, the real test of its strength came early last Thursday. . . .

Dealers had marked prices down, with the idea of picking up last minute offerings of securities by commercial banks, which had to meet war loan calls. . . . Much to their surprise the market went dull, and no offerings appeared. . . . This was followed shortly thereafter by a reversal in trend which carried prices up, this time also on light volume. . . . However, since then improved prices with larger volume have been the course of the market. . . .

The purchase by New York City of $13,900,000 of the June 2½s due 1967/72, has been instrumental in bringing home to some investors the fact that it would not take much buying to push up the prices of the restricted bonds, when the market is right. . . . Although offerings were substantially in excess of the amount purchased by the City, prices in most instances were also above those accepted by the municipal authorities. . . . When it was evident that a sizable amount of bonds would not come into the picture unless prices were higher than those paid by New York City, then the tone of the market improved considerably. . . .

LONG 2S FAVORITE

The leadership in the government securities markets again seems to be with the intermediate-term taxable issues, with the longest maturities of the 2s still the most favored obligations. . . . Insurance companies, savings banks, as well as commercial banks are in the market competing for these securities. . . . The savings banks and insurance companies are moving from shorter securities into the later maturities of the 2s, believing that the greater marketability of the bank-eligible issues, makes these securities attractive at present prices. . . . The demand from the deposit institutions for the intermediate taxable securities in the not distant future will most likely be substantial enough to take these present-day purchases of non-bank investors off their hands, at prices as good if not better than those at which they were obtained. . . .

PURCHASES AND SALES

A good demand is still in evidence for the 2¼s of 1956/59, which has also carried along the 2½s due 1956/58, so that the two issues now give about the same return, with the purchase of either obligation largely a matter of the amount of premium involved. . . . The 2½s due Sept. 15, 1967/72 are likewise being taken out of the market as the smaller commercial banks continue to be the most important buyers of this issue. . . . The partially-exempt obligations responded to the better action of the taxables. . . . This betterment, according to reports, was because considerable amounts of these bonds were taken on by the metropolitan as well as the out-of-town institutions. . . .

Insurance companies and savings banks, according to indications, were again the main sellers of these bonds, although government trust funds were reported to have let out some of these issues. . . .

It seems as though there is a definite quest on now for longer maturities among the commercial banks, although up to the present time this has not resulted in the Central Bank's taking on any of the short maturities of bonds. . . . So far the operation has been among the banks and insurance companies and vice versa. . . . The shorter taxable bonds that have been sold by the smaller commercial banks and insurance companies or savings banks have been bought principally by the larger metropolitan institutions. . . . Insurance companies and savings banks in some instances have also been buyers of the shorts and sellers of the intermediate-term issues. . . . Due to the mixed demand the market has been able so far to work out these changes without having to go to Federal with securities. . . . It is believed in some quarters that these adjustments can and will continue to be made almost exclusively in the market itself with practically no resort to the Central Banks. . . . If this should be the case, it is likely that the agitation for change in the short-term rate will disappear. . . .

If the trend into longer-term obligations by the banks, which cannot be too substantial because there are not enough of these bonds for them to buy, is not accompanied by sales of certificates or short bonds to Federal, there may be possibilities of a changed attitude toward the rate patterns on the part of some of the Central Banks. . . .

Although there has been some buying of the longest ineligible obligations, it is not believed that there will be much of a following developed in these bonds, until after the early January conferences between Treasury officials and the heads of the insurance companies and savings banks. . . . Purchases of earlier maturities of the restricted issues will no doubt continue, but important acquisitions of the 2½s due June and December 1967/72 are not likely to be undertaken until after these meetings. . . .

It is not believed that there will be much definite coming out of these gatherings, since it seems to be the prevailing opinion that future flotations of long-term obligations will depend upon business conditions, trend of commodity prices and the volume of loans. . . .

If there should be need to combat inflationary forces, then there will most likely be an issue of long 2½% bonds for ultimate investors. . . . A deflationary course of economic conditions, most certainly would not bring about any new bond issues by the Treasury. . . .

DIVERGENT RATE OPINIONS

The recent speech (full text in Dec. 12 "Chronicle," page 3012) by President Sproul of the Federal Reserve Bank of New York, at the New Jersey Bankers Mid-Year Trust and Banking Conference, at Asbury Park, seems to have brought into the open, the conflict of views between the heads of some of the Central Banks and Chairman Eccles of the Federal Reserve Board over money rates and patterns. . . . It seems as though the President of the New York Federal Reserve Bank wants the rigid pattern of rates used during the war changed and made flexible, particularly short-term rates. . . . The Central Bank wants to regain control over the initiation of credit, which cannot take place as long as short-term rates are pegged and Federal has to buy at fixed prices all of these issues that are offered by the commercial banks. . . . On the other hand, Chairman Eccles of the Federal Reserve Board seems to look upon the entire government debt pretty much as demand obligations. . . .

Therefore, in order to prevent the cashing in of certain of these securities, he appears to believe that the market for all government issues must be kept stable and protected, which means a continuation of low interest rates and the war rate pattern ranging from ⅞% to 2½%. . . . It will be interesting to see what comes out of these divergent views on rates.

The World Bank—Its Aims and Importance

(Continued from page 3202)

international bank to deal with the problems of reconstruction and development. They recognized that these problems were of such magnitude that they could not be met through the conventional channels of private investment, or through the unintegrated efforts of governments acting separately. They recognized, too, that these problems affected the welfare of all nations—those had escaped the direct ravages of war as well as those that had endured them. They recognized the world dependence on economic as well as political unity. They were keenly aware that the preservation of peace would be impossible unless men everywhere had the opportunity to earn a living and return as soon as possible to their normal pursuits.

The International Bank was conceived as an instrument for helping to achieve these human aspirations. It was designed to finance constructive undertakings in devastated or industrially underdeveloped countries — undertakings which would help men to contribute to the world's wealth and, through the exchange of goods with their fellowmen, to raise their own standards of living. Only an international bank can do this job on the scale on which it now has to be done.

The Articles of Agreement of the International Bank and the International Monetary Fund were drafted at the Bretton Woods Conference in 1944. Another year passed before the necessary number of governments had accepted the agreements and joined in the establishment of the Bank and the Fund. Last spring organizational meetings were held, and the two institutions came into being.

That is the brief chronology of the efforts to organize the nations of the world for common action in the financial field. It is only one part of our new extensive international mechanism. International cooperation must grow and develop; it cannot spring into full grown activity through a sudden act of creation.

Establishment of the Bank

After its formal establishment the Bank could not begin its operations immediately. A staff had to be recruited from among the competent people in many countries. That was not a simple matter. In my opinion we have done well. I have confidence in the ability and character of the personnel we have secured. But they were not secured easily or quickly.

The shortage of trained personnel in every country and in every field of endeavor was in itself an obstacle to rapid progress. It is only within the last few weeks that the Director of the Loan Department was appointed—Charles C. Pineo, a Canadian of competence and experience, who was until recently an officer of the Royal Bank of Canada in charge of their foreign business. The Vice President of the Bank, Harold D. Smith, was formerly Director of the Budget of the United States. The General Counsel, Chester A. McLain, is an American, who came to the Bank from the law firm of Cravath, Swaine & Moore in New York. Mr. McLain had extensive experience abroad as well as at home in matters related to international finance. The Treasurer is D. Crena de Iongh, who was formerly the president of one of the largest banks in the Netherlands. The Director of the Research Department, Leonard B. Rist, is a French economist, who before the war was a vice president of Morgan and Cie. in Paris and, during the war, played an active part in the liberation movement. The Secretary, Morton M. Mendels, is a lawyer from Montreal, who was only recently released from the Canadian Army. In his work he was responsible for military estimates, finance and economic studies.

The Bank is novel in its organization. That is inevitably so, because no such institution ever existed before. Its members are 38 governments, each of which is entitled to appoint a Governor. The Governors meet at least once a year and are entitled to vote the shares of the Bank's capital to which their governments have subscribed.

There are twelve Executive Directors and each Director has an Alternate. Five of the Directors are appointed by the members having the largest subscriptions to the Bank's capital, and seven are elected by the remaining members. With the President of the Bank as their Chairman, they meet regularly twice a week.

The Governors have delegated to the Executive Directors their authority with respect to the day-to-day operations of the Bank. There is, therefore, a Board of Directors continually available in Washington to act upon the business of the Bank and give general policy directions.

Manner of Conducting Operations

I know you are interested not only in the way the Bank is organized but also in the manner in which the Bank conducts its operations.

You possess as a group a very large aggregation of investment funds and the Bank desires your active interest and support. The Bank needs long-term funds in order to carry out the purposes for which it was created and you, of course, want long-term investments. While you are not authorized under existing state laws to invest in the Bank's obligations, the Bank hopes that the necessary legislation will be adopted. It has felt, however, that the matter was one that should be dealt with by the regularly constituted authorities in this country.

The Bank must use its resources and facilities solely for the benefit of its members. It is authorized to make or participate in direct loans, or to guarantee in whole or in part loans made by private investors through the usual investment channels. If in any case a member is not itself the borrower, the member or its central bank or some other comparable agency acceptable to the Bank must fully guarantee the loan.

The first application for a loan which was sufficiently documented to be studied was not received until October. Since that time, four additional applications have been received in form for consideration. Of these five applications, four request assistance in the reconstruction of economies which suffered seriously from the war. The fifth seeks funds for development projects.

Upon the receipt of these applications, a committee of officers from the various departments of the Bank was appointed to study and report on each. These studies have been going forward and considerable progress has been made.

Questions Considered in Loan Applications

Here are some of the questions which must be considered in the case of each application: Are funds available from private sources on reasonable terms? What is the effect of the loan on the country's economy and how sound is the investment? What are the prospects that the borrower will be able to meet the obligations incurred? If the loan is to be granted, what would be a reasonable rate of interest and what other charges should be made? Is the schedule of repayments appropriate to the loan? What methods of supervision can be undertaken to see that the credit is properly used and repaid?

Under the Articles of Agreement of the Bank, loans are required to be for the purpose of specific projects of reconstruction and development, except in special circumstances. I mentioned that one of the applications now before the Bank seeks the financing of specific development projects. Naturally, new development is planned and undertaken on a project basis, in an effort to expand and modernize the productive facilities of a country. A power plant or a steel mill can be built; a railroad can be run into a previously inaccessible area if the necessary manpower and local resources are available. There are many such projects which can be carefully planned and engineered in any underdeveloped area, although it takes a considerable amount of time to prepare such plans.

The situation is somewhat different, however, in the case of countries whose economies were destroyed and disrupted by the war. In many instances, those countries were highly industrialized prior to the war. Their need now is to rebuild and modernize their facilities, or even to expand them in order to strengthen their economies and increase their standards of living. In these countries it is not possible to think of projects only in terms of a particular power plant or other facility. Often the best way to promote reconstruction will be to undertake a general program for the repair and modernization of large segments of their economies.

Foreign Exchange Resources

In making loans, the Bank will be interested in the foreign exchange resources of the borrowing country. The fact that the financial assistance provided by the Bank results in profitable undertakings within a country does not necessarily mean that the borrower will have the resources required to repay the Bank. The Bank will be lending foreign exchange with which borrowers can buy goods abroad. Therefore, it is necessary to consider the ability of the borrowing country to repay the Bank with currencies other than its own. Obviously, the Bank's assistance cannot be limited to projects or programs which will result directly in the receipt of foreign exchange. But in each case the Bank must be satisfied that the over-all effect of its loan, combined with the resources and efforts of the borrowing country, will be to improve the economic position of the country sufficiently to give reasonable assurance that the foreign exchange needed for repayments will be available.

Bank Guided by Economic Considerations

The Bank, to succeed, must be operated as a business institution, guided by economic rather than political considerations. In fact, the framers of the Bank's Articles of Agreement provided that only economic considerations should be relevant to the Bank's decisions. In other words, the Bank has been given a mandate to operate on a business basis.

I have discussed the nature of the Bank's operations and the considerations to be taken into account in making loans. Now I would like to tell you something about other elements in the Bank's structure and operations which bear upon the character of its securities as investments.

The governments which are members of the Bank have subscribed to its capital stock over $7½ billions. Four additional countries, recently declared eligible for membership, will bring the total to approximately $8 billions. Of this amount, the Bank is entitled to require the payment of 20% as working capital. Ten percent, or the equivalent of about $750 millions, became payable by Nov. 25. The full 20%, which amounts to approximately $1½ billions, will have been received by next May. One half of this sum, or about $750 millions, will be in gold or United States dollars, the rest in other currencies of the members.

The remaining 80% of the members' subscriptions to the Bank's capital is not subject to call except for the purpose of meeting the Bank's obligations.

I recently noticed a newspaper story in which it was stated that there had been no official ruling as to the exact procedure under which calls could be made against this 80% of subscriptions. It was further stated that certain investors had asserted that there was a serious question whether, if one or more members defaulted in the payment of calls on their subscriptions, the Bank could make additional pro rata calls on capital until the amounts paid in by non-defaulting members up to the full amounts of their respective subscriptions should be sufficient to meet the obligations of the Bank.

I think you will agree that it is unreasonable to expect the Bank now to make official rulings defining the exact procedure which it will follow in the remote contingency that it should need to call all or part of such 80% of its capital in order to meet its obligations. I think, however, that I can clear up any doubt as to the answer to the particular question which seems to have been bothering the writer of the story to which I refer. I am assured by the General Counsel of the Bank that in his opinion the obligation of each member on its subscription to the capital of the Bank is independent of the obligations of other members, and that in case some members fail to respond to a call on their subscriptions, the Bank may continue to make pro rata calls, up to the full amount of its capital subscribed and unpaid, until the amount received by the Bank is sufficient to meet its obligations for funds borrowed by it or on guarantees made by it.

Funds Through Sale of Debentures

The Bank's working capital is available for lending and may serve as a revolving fund. Most of the amounts used for loans will have to be replaced through borrowings. In fact, most of the funds required by the Bank in all its lending operations must be obtained through the sale of debentures in the public markets from time to time.

The security behind the Bank's obligations will be its loan portfolio, its reserves, its paid-in capital on hand and its ability to call upon its members for part or all of the remaining 80% of their subscriptions. If and when such call is made, the Bank is entitled to require that payment be made in the currency necessary to satisfy its obligations.

Let us examine for a moment the nature of this security.

It is unlikely that the Bank will borrow funds on a large scale in advance of the need for them since it will not want to pay interest on idle money. In no event can the Bank's loans and guarantees exceed the amount of its unimpaired subscribed capital, reserves and surplus.

Security for Debentures

Those who hold the Bank's obligations will have the Bank's loans as the first line of security. I certainly shall not hazard the flat assertion that all the Bank's loans and interest thereon will be repaid in full and on the dot. There may be some defaults, and adjustments may have to be made where difficulties arise. But even if there are some defaults, the 80% of subscriptions to the Bank's capital can be called in any amounts and in any currency required to meet the Bank's obligations.

Furthermore, under the Articles of Agreement, the Bank is required to charge a commission of from 1 to 1½% on all the loans it makes. This commission must be held in liquid form as a special reserve to meet the Bank's liabilities. After the first years of operation, this reserve should amount to a substantial sum.

Apart from the portfolio, the special reserve and the subscriptions which can be called, there may be other reserves as well as a surplus arising from the Bank's operations. And as a final item of security, there is the paid-in capital of the Bank, which can be exchanged by it, without restriction, into any currency which the Bank needs to meet its obligations. The portfolio, together with reserves, surplus and subscribed capital cannot be less than 200% of the Bank's obligations.

Conservative Operation

I think you will agree with me that, in framing the Articles of Agreement of the Bank, they intended to make every effort to assure a conservative operation.

I look upon the Bank as a great opportunity for the people of the world—not merely for the people of the borrowing countries, but for those in the lending countries as well.

The workers and the managers, the scientists and the engineers in the borrowing countries, with technical help from the outside in many cases, must plan projects of sound reconstruction and development. If the Bank assists in financing those projects, the people in the borrowing countries must labor to construct and operate them for the benefit of their fellow citizens. They must act wisely in handling their domestic economies so that the anticipated benefits will be realized. They must act carefully so that their budgetary and fiscal affairs, as well as the social measures they undertake, will bring a rising standard of living to their people and not a period of boom, followed by a bust.

But the laborer and the trader, the manufacturer and the engineer, and the investors in the producing and creditor countries must also shoulder a share of the responsibility.

Many countries today have been laid waste by war. Their economies have been disrupted and their administrative and distribution machinery shattered. Unless the destruction can be repaired and the normal functions of economic life resumed, we will not achieve the secure peace for which we fought.

I had occasion recently to comment publicly on the famine of materials and manufactured goods with which the world is threatened. The famine of raw materials and manufactured goods can be just as real and just as desperate as the lask of food. American management and American labor have it within their power to meet a very great part of the world's essential material needs. Our factories and plants and those of Canada and other countries, which did not suffer direct attack, are the hope of the world. We have in our hands the power to decide whether we will regenerate the world's economy or whether we will squander our productive capacity by leaving it idle or by producing only enough to satisfy our own requirements.

We shall also have to share our technicians — the engineers and chemists and agronomists — to help the devastated and underdeveloped countries plan their programs of reconstruction and development.

Need for Foreign Investment

Furthermore, the creditor countries will have to invest their capital resources productively in other parts of the world where it is needed. All the funds of the insurance companies in the State of New York are not invested within the boundaries of the State; they find their way into channels which carry them throughout our country to strengthen the economies of other states and other areas. Now foreign countries are a logical field for carefully planned investment. It is evident that most of the funds required by the Bank in addition to its capital must, for the present, be obtained in the United States.

Let me also point out that the participation in the Bank's success is certainly not limited to the direct purchase of its securities. One of the principle functions of the Bank is to promote private foreign investment. The Bank can help to fill the gap which now exists between widespread and urgent needs and available private resources on reasonable terms. Its operations, however, are not a substitute for healthy private investment. The loans it makes will, I hope, contribute to the strength and stability of the borrowing countries and improve the climate for private lending. They should also help to bring about conditions under which private trade may be restored and expanded.

If we want to enjoy the kind of economic society in which individual men can thrive and live comfortably, we cannot retreat into our own rich land and cease to care how the rest of the world lives. We cannot do that because there is no way of shutting ourselves up and keeping the rest of the world out. The spread of economic disease beyond our shores will eventually infect us. The deterioration of the economic conditions under which men live inevitably leads to political illness, which will surely involve us unless it is cured. In other words, we cannot be the only happy and prosperous country on the face of the globe.

To Work Together Toward A More Prosperous World

The International Bank was conceived as an opportunity for business and labor and technicians in all countries to work together toward a more prosperous world.

The Bank's efforts alone will not bring about the conditions which we wish to see restored throughout the world. There is need for action on many fronts. The International Monetary Fund has the highly important task of bringing stability into the chaotic area of international exchange. The Food and Agriculture Organization is concerned with improving agricultural conditions throughout the world. The United Nations have already taken preliminary steps to establish an International Trade Organization. In other fields as well, men of goodwill are working together to forge the economic conditions of peace through mutual assistance.

I am convinced that in a world of mutual suspicion and smouldering conflicts our efforts to expand trade and raise standards of living among the nations will be futile. I am equally convinced of this: We shall not have peace unless economic conditions are bearable and backward economies are helped to go forward.

Whether we live in a borrowing or lending country we can all play our part in improving international relations and in strengthening the forces which benefit men in their daily lives. We can, each and every one of us, help to lay the new foundations upon which enduring peace must rest.

Corp. Div. Payments In Sept. Surveyed

Publicly reported cash dividend payments by corporations in the United States were 14% higher in September of this year than in September a year ago, the Department of Commerce said on Nov. 27, in its report of the corporations dividends, which also said:

"September 1946 payments were $451,800,000 as compared with $396,200,000 in September 1945.

"For the third quarter of this year dividend disbursements amounted to $1,007,400,000, an increase of 14.5% over the $878,700,000 total in the same quarter of 1945. Corporations engaged in trade experienced the greatest rise, 48%.

"A 47% gain was scored by the miscellaneous group of the third quarter of this year as compared with the same period a year ago. The payment of extra dividends by several motion picture companies was primarily responsible for the group gain. Other nonmanufacturing industries experiencing gains were heat, light and power up 26%; mining up 20% and finance up 12%. Dividend payments by the communications group were about the same during the third quarter of this year as during the same period a year ago.

"Dividend payments by manufacturing companies as a whole advanced 10% during the third quarter of this year as compared with the third quarter 1945, but among the subdivisions wide variations occurred.

"Transportation equipment boosted its disbursements 78% above 1945. This was mainly owing to a change in the date of dividend payments by several large aircraft manufacturers. Third quarter dividend payments by paper and printing were up 46% over the same period of 1945; textiles and leather, up 29%; other manufacturing, up 28%; chemicals up 22%; oil refining, up 9%; iron and steel, up 8%; nonferrous metals, up 6%; and food, beverages and tobacco, up 4%. The only decline in dividend payments was in automobile manufacturing, down 21%, due to the decreased dividend rate of one of the largest manufacturers."

The Enslavement of Labor

(Continued from page 3207)

demagogue and self-seeker dawn. In such times as these, the paramount duty of every person is to keep his feet firmly set upon the ground and to scrutinize each new proposal with the utmost care before undertaking its adoption and promotion.

AFL Champions Democracy

I am pleased to say that the American Federation of Labor, with its roots planted deep in American soil and its philosophy grounded in American traditions, has thus far withstood any and all attempts made to divert it from its original moorings or to sway it from its constructive path. Throughout, it has remained the champion of the cause of democracy as over and against the forces of suppression and of dictatorship.

In recent years, democracy has been sorely tried. It is being frowned upon in many lands. In some it has been uprooted and highly centralized governments with dictatorial powers have come into existence. Wherever centralized government and dictatorial powers have been established there also has been established a hostility to freedom of religion and of the practices of the Church, as well as to the rights of free labor and practices of free trade unions and labor organizations.

Democracy, as we know it, stands not only for the right of the individual to be free, but for the right of every individual soul of its importance in the sight of God. It is a part of our Christian belief that we are all children of God and are therefore spiritual persons.

The theory of the totalitarian state is the complete antithesis of the concept of Christian democracy. It stands for the supreme and all-powerful state; it demands the complete loyalty of the citizen to the state. It asserts that man was made for the state; it rejects the Christian idea that the state exists for the individual.

If we look across the Atlantic we can now see many things that should open our eyes. In Russia, we behold a wearied and exhausted people with their heads bowed to the tyranny of an organized minority. We see labor sweated at the bidding of the dictatorship of a small oligarchy operating through a privileged bureaucracy. Labor organizations have been transformed into labor battalions, acting under orders. Farmers have been herded into collective farms where home life and independence have been destroyed. Worse than all else, a determined and persistent effort is carried on day in and day out by those in authority to tear the cross of Christ from the hearts of the whole people.

With the aid of false definitions, loose thinking, and the degeneration of ethical standards, the communists here and elsewhere hope to stampede people into the belief that they are progressive. By weapons of distortion and destruction they would have us understand that Russian dictatorship presents the rule of reason of freedom—a government of peace and harmony. Indeed, by constant and persistent communist propaganda of falsehoods, a large section of liberal opinion in our country has been corroded to the point of many well-meaning persons consciously or subconsciously accepting all of Russia's acts and projects as the very touchstone of human advancement.

Communist State of Terrors

It is by deeds however, and deeds alone that one evaluates movements and judges the validity and soundness of government. Under guise of abolishing the tyranny of private capitalist property over the masses, the communists, whenever and wherever they have seized power, have instituted the terror of state property-owner over the overwhelming majority of the common people under their yoke.

In the fatherland of world communism, socialized property spells mass collectivization of misery. In this Utopia state property rights have far greater priority over the rights of individuals than private owners ever had or dared exercise in the worst days of capitalism. Under guise of eliminating exploitation, Communist dictators have foisted upon regimented masses a system of exploitation by soulless state bureaucrats more vicious and life sapping than the human tongue can tell or describe.

Under banner of bringing economic freedom, they have imposed a system of industrial slavery unparalleled in the annals of human history for its magnitude, ruthlessness, and planfulness of exploitation. No other country in the world—with all the evils attendant to its economy—have so vast a proportion of its national industrial life based on slave labor as does Communist Russia.

In Russia, Communist economy means police economy—just as the Communist State is nothing else but a savage and heartless police state. At this very moment, billions of dollars of lend-lease machinery and tools provided by the American people to help the Russian people beat back the Nazi aggressors, are being used by millions of enslaved laborers in building new vast arsenals of aggression for Soviet imperialism.

I point to the regions of the densely-wooded Urals and to the bleak shores of the Sea of Okhotsk where giant cities have been built by the sweat and blood and very lives of millions of forced laborers—slave workers, workers chained to the chariot of Soviet tyranny merely because they have dared occasionally to oppose, to criticize mildly, or even to question hesitatingly this barbarous dictatorship over the proletariat.

Russia's Giant War Centers

If Molotov and Gromyko would not exercise their veto, the United Nations would do well to inspect such giant war centers as Magdan, Petrovak, and Yakutia. These are not *mistery* cities. They are centers for Communist *mastery* of the whole world.

More than that. I speak not only of the physical enslavement of millions of individuals by the supreme bureaucrats and managers of state property. Behind the iron curtain, the land where American radio commentators are not allowed even to broadcast for a few minutes a week a few censored lines to the United States, there is likewise a vicious enslavement of the human mind, the arts, and culture of the people.

Under pretense of restoring some measure of religious freedom, the Kremlin rulers are actually seeking to turn the Greek Orthodox Hierarchy into an arm of the Soviet State and an instrument of Russian Government policies at home and abroad. Books and movies and press and theatre and music are being constantly coordinated and purged by top party bureaucrats. One may readily agree that Leningrad Communist Party boss, Zhdanov, can conduct rather efficiently the Party Line. But it is difficult to understand in what manner or by what means this key Communist party position qualifies him as a judge of literature, art and music or as an arbiter of religious issues.

Because Zhdanov can conduct Stalin's harsh party line, does not mean he is more qualified than is the great composer himself to conduct the Shostakovich Ninth Symphony. Indeed, material enslavement and moral degradation go hand in hand in the Communist paradise. Under guise of ushering in a society where the state will wither away, the Communist dictators have set up a regime in which the *people themselves* are withering away.

Russia Denies Freedom to Its Citizens

A government which denies freedom to its *own* citizens cannot be earnestly devoted to peace and liberty for the citizens of other countries. Herein lie the roots of Russia's pathological distrust and suspicion of democracy. The home and epitome of ruthless totalitarianism cannot be the bearer and guardian angel of international security and peace. Already, more countries have lost their independence in World War II than have gained their freedom after World War I. Thus, Tito's acts are not the acts of some individual adventurer, but an integral part of a whole pattern being woven by a powerful aggressor whose tool he is. The persecuted and imprisoned Cardinal Stepinac has borne eloquent and tragic testimony to this.

Communism Is Materialistic

The basis of Communism is purely materialistic. It seeks to make this materialistic philosophy the religion of its devoters. It would not only ignore but vilify our Creator and hold in contempt the Church and those doctrines which we have all learned to hold sacred through countless centuries. In theory it would level all classes of society, but in practice it has established two privileged groups; namely, political office holders and army officers. All other persons and citizens are mere pawns and slaves at the beck and call of these privileged groups.

It is difficult to understand how any person who gazes out on the tortured world today, upon the spiritually broken and materially bound human beings of so many countries whose people are being ground beneath the heads of collectivism, can fail to appreciate the superiority of the American way.

Of course, ours is a constantly changing and progressing system. It is not perfect. It is not complete. It has not reached its ultimate. But progress is not made by attacking and undermining the very structure and machinery upon which we depend. Progress can only come by improving the devices of production and distribution, by constantly raising the standard of living, by creating new commodities, by developing new ideas, by giving the widest freedom for the development of the arts and sciences, the dissemination of knowledge and information and the investment of private capital in private enterprise.

The challenge of Communism is directed not alone at political democracies, but against all free and democratic organizations, including the trade unions and labor organizations of every type and character. The form of absolutism that is developing is an aggressive political doctrine that challenges not alone democratic nationalism, but internationalism as well.

The Catholic Bishops of the United States, in their recent statement, under the title "Man and Peace," were sound in their conclusion that at the bottom of all problems of the world today is the problem of man. The profound question of today is "whether national governments are disposed to protect or hinder the individual in the exercise of rights and in the discharge of duties which are proper to him prior to any action by the State."

For more than a year, the statesmen of the world have been working feverishly at the task of making peace. Few will deny their arduous efforts. Not many will point to their achievements with pride and satisfaction.

Distressing Failure of World Peace

Since the Potsdam Conference of the summer of 1945, the top three of the Big Three and the Foreign Ministers of the Big Four and Five have exerted all energy at their command to remake the world. There has been no dearth of formula or of plans. Still they have been unable to piece together the world of yesterday, let alone building a foundation for the better, for the brave, new world of tomorrow, for the achievement of which so many millions of many lands have made the supreme sacrifice on the field of battle.

What is at the bottom of this distressing failure? Why this paralysis of international statesmanship?

Territorial boundaries may momentarily be very important. They are seldom permanent and scarcely a guarantee for peace. Man-made arbitrary and fixed boundaries set by the strong against the meek are often a source of war rather than a force for peace. Even less may be said for reparations as a pillar of peace. Not a syllable can be uttered in defense of the brutal transfer of populations from their native soil and traditional abode as a means of building good will among men and fostering peace among nations.

The Catholic Bishops in their recent statement reached the very heart of the problem of world peace when they proclaimed, "Before we can hope for a good peace, there must come an agreement among the peacemakers on the basic question of man as man. Respect for the rights and duties of man as an individual and as a member of civic and domestic society, as we hold to be the first obligation of any government to its citizens."

Here is welcome light on the present distrust, suspicion and bitterness which divide not only the victors from the vanquished but the comrades-in-arms of yesterday's triumph over the Axis menace. Not until the statesmen of the world begin to seek understandings and agreements over moral rather than material issues, over the questions of principle rather than the demands of power politics, will there be any encouraging prospect for an equitable and enduring peace.

Not until the diplomats plan to insure and increase the rights of the individual will they have grappled with the real issues of a durable peace. The sound standard proposed by the Catholic Bishops of our country for making peace represents, I am sure, the basic approach of peace-loving Americans of all faiths.

Recognition of the organic relationship between human dignity and freedom and world peace, recognition of the indivisibility of peace between nations and justice within nations, is the first and decisive pre-requisite for effective peacemaking, for the highest form of statesmanship. Only when the leaders of international diplomacy approach the problems of peace in this spirit, will they be really getting down to the tasks of firm peace-building.

An International Bill of Rights

In full realization of this sound moral basis so essential to peace, the American Federation of Labor presented, last August, to the United Nations Economic and Social Council, an International Bill of rights for incorporation into the general peace treaty. I am happy and proud to say that in spirit—and to no small extent in substance—the approach to world peace and human freedom made by the American Federation of Labor in its International Bill of Rights is in full accord with the historic and inspiring statement of policy recently ennunciated by the Conference of Bishops.

Let me cite a representative paragraph of our statement. "Humanity has reached a stage of development in which the efforts, actions, and struggles of all peoples against poverty and tyranny must be coordinated—if progress and prosperity are to be assured. Only a world peace settlement in which the preservation and promotion of the human rights and welfare of all peoples are primary objectives, can be just and enduring."

No nation, whether victor or vanquished, can reject this approach and be dedicated in deed to the cause of human freedom and peace. No nation, victor or vanquished, can be truly free if it disregards—in practice—these humane standards in its domestic and foreign relations. And let me emphasize that no movement—anywhere in the world—can be genuinely progressive unless it sincerely and vigorously adheres to this humanitarian and practical guide to a peaceful and bountiful world.

It is from this viewpoint that we are uncompromisingly opposed to the philosophy and practice of totalitarian Communism.

Imperialism today under cover of Communism is far more dangerous than ever it was under the flag of Czarism. Lest we forget: Russia, alone of all the victorious powers, has not been satisfied with merely defeating the Axis enemy. The Soviets are the only power having extended its domains at the expense of its Allies—its friends as well as its enemies. It is not the security of the Russian people that worries the Kremlin—despite all declamations regarding danger of capitalist encirclement. Rather, it is the security of several great democracies and of weaker nations that now disturbs Communist aggressors. The Moscow Commissars know very well for the first time in their history that the Russian people now have complete security on all sides, the south, west, east and north.

Choice Not Between Bilbo and Browder

Let me make one other plea. We who believe in the democratic way of life must never waiver in our sound and unrelenting opposition to Communist tyranny into unsound and unwarranted support of anybody merely because he or they oppose Communism. Our struggle against the evils and vile institutions of Communism can never be triumphant and final unless we spurn, repel, and uproot with full force at our command every other specie and stripe of totalitarian bigotry and prejudice, intolerance, racialism, and persecution. The Choice before the American people is not between Bilbo and Browder. Our choice is *neither* Bilbo nor Browder—in any shape, manner, form, guise or disguise. Our choice is *democracy and human dignity and welfare* as against both reaction from the left and right.

The problem of peace abroad and justice at home are intertwined and inseparable. They are two sides of one medal. Let us build an America free from the errors and terror of every type of totalitarianism and we will build an America able and eager to lead the world on the paths of justice and peace.

Let us build an America in which the dignity of human life, the spiritual elevation of its citizenry, and the enhancement of the people's welfare are our guiding motives and we shall then be able to insure the building of a world free from all racial and religious persecution and poverty—of a society of free nations governed by that set of lofty moral values which alone can lead to equitable and enduring peace.

Price Distortions and the Business Outlook

(Continued from page 3204)

concerned with the serious price distortions that now exist and their probable effect on the course of business in 1947.

Historical Postwar Price Patterns

The price patterns after great wars seem to have similar characteristics. English prices advanced sharply during the Napoleonic wars. After 1815, prices dropped considerably; but this decline was soon arrested and another price advance began that continued into 1818. It was followed by a long period of declining prices. Our war of 1812 was followed by six months of declining prices, then a recovery for three months and then nearly fifteen years of falling prices. The peak of the Civil War rise in prices was reached in January, 1865; prices then declined until June 1865 and there was a brief recovery until October, 1865; and after that, falling prices until 1879. In World War I, prices reached their peak in September, 1918, declined until March, 1919, rose to a new high in May, 1920; and then began the long decline which lasted, with some interruptions, into 1932. These time intervals are not too precise, particularly for the earlier periods; but they will serve to sketch a very rough, common pattern.

Four main phases may be distinguished: (1) The wartime rise which continues until stopped by government controls or the imminence of peace; (2) the immediate post-hostilities decline which may sometimes begin before the end of the conflict and which usually lasts for a short time thereafter; (3) the replacement boom rise in which wartime distortions in the relative prices are continued and usually accentuated; and (4) the period of readjustment in which a new equilibrium is found and the stage set for a long decline in prices. The time intervals of the pattern vary considerably, the magnitudes of the changes are never the same; but, still, the general outlines seem to be reasonably well defined.

Our Present Postwar Pattern

How well does this general pattern fit the present postwar period up to this time? In the first phase, the BLS index of wholesale prices advanced from 75 in August, 1939 to 106 in May, 1945, or about 40%. Between August, 1914 and November, 1918, the same index advanced about 95%. If one selects the months of our entry into World War I and World War II as the base, the percentage advances were about 19 and 13% respectively. Still another set of percentage changes can be derived by taking the months when a more or less continuous advance began. For our purposes, the significant fact is that in the first period, as contracted with the recent war period, a much larger part of the price advance occurred before our formal entry into the conflict.

The second phase of the general pattern, namely the immediate postwar decline, is not as clearly marked this time as it was in prior periods. In the four months following V-E Day, there was a very slight decline in the BLS index which was mostly confined to the raw materials group. After World War I, there was a similar and somewhat greater decline in the immediate months following the armistice. This time, the continuation of the Pacific war was a sustaining influence. It is a fair conclusion, however, that government price controls tend to make the immediate down trends in prices after peace far less drastic than in prior postwar periods. Prices do not advance so rapidly during the war period and the immediate reaction is less serious. During the recent war, we had pretty stringent control of non-agricultural prices; but this control or system of "administered prices" did not make proper allowance for increasing costs in many cases and often operated to create or accentuate shortages. Under such conditions, the close of active warfare did not cause any drastic decline in average prices.

We are now deep in the third phase of postwar price adjustments. The upward trend of prices during this replacement boom has now lasted about as long as it did after World War I. The recent removal of almost all price controls has stimulated the advance temporarily. It seems probable that the rising trend will persist well into the fist quarter of 1947.

Between March, 1919 and May, 1920, the BLS index advanced about 27%; and between September, 1945 and December, 1946, the increase has been about the same, or perhaps slightly more. Some competent observers believe that this index may rise 5 to 10% more before a reversal gets under way.

Such a reversal is indicated by historical precedent. It is usually experienced because a replacement boom creates a number of serious economic distortions that impair the general balance of the economy and undermine the confidence of the people who hold the purse strings whether they be millions of plain people or the managements of great corporations. These distortions find expression in the relative levels of prices. The continuation of serious distortions ultimately forces readjustments.

Prices reflect the inter-action of highly complex economic, monetary, political and psychological forces. If the existing structure of freight rates were suddenly scrambled so that relative rates were turned topsy-turvy, it would not be long before industry after industry and community after community would be gravely affected. Our whole economic life would be profoundly disturbed. A somewhat analagous situation now exists in the present price structure. Normal price relationships have been upset by a long war during which we found it necessary to impose sweeping price controls. That period was followed by continued and quite unrealistic price controls, by months of bitter wage controversies and by wide-spread interruptions in production and in the flow of badly needed goods. Such conditions have aggravated the wartime price distortions. With decontrol, the difficult process of restoring economic balance has begun.

To attain this end, some business disturbance seems more or less inevitable. Apparently, we cannot avoid these correction periods—at least not until there is broader understanding of the forces that create them and vastly more team work to keep the economy on an even keel. We need the corrections to reestablish a price equilibrium in which there is a large measure of confidence, a price equilibrium that once again will permit and stimulate safe forward planning. Some additional comment on prevailing price distortions may be of interest.

Perhaps a good initial approach to this problem is to survey the respective deviations from the BLS wholesale price index of the raw material, semi-finished and finished components of that index over a considerable period. You may recall that the raw material group includes about 111 quotations, more than one half of which are farm products; the semi-manufactured group covers 99 quotations of such commodities as raw sugar, vegetable oils, yarns, ferrous and non-ferrous metals; and the manufactured group is represented by 679 separate quotations of various finished products.

When the deviations from the general average fall within a narrow range and the index is not rapidly rising or falling, we ordinarily have fairly good business conditions. The exceptions include war periods with high business activity and wide deviations. Under peace conditions, a narrowing range of deviation from the average seems to coincide with improving business and a widening range is ordinarily the prelude to business troubles. Thus, from 1925 to the early part of 1930, the deviations of the groups were small; they then widened considerably and not until 1934 did they begin to narrow again; the deviations continued to grow smaller until near the end of the first half of 1937; then the range widened rapidly and contraction did not begin again until the early part of 1940. The war period, of course, again threw the groups out of balance.

Study of these group deviations in the 1916-20 period and the period from 1942 to date reveals one striking difference. In the first period, it was the semi-manufactured group of commodities that caused trouble. During that war, this group maintained a position much above the average; it came into the zone of tolerance for a brief period in the first half of 1919 and then quickly soared to fantastic heights in the Spring of 1920. The relative position of the group was finally corrected in the precipitous general decline of the subsequent months. In this war and postwar period, the semi-manufactured group has held a submerged postion and it is the raw material group that has risen sharply above the all-commodities index. Since decontrol, all groups have advanced; but the weekly BLS indexes indicate some narrowing of the dispersion zone. Raw materials, however, remain relatively high.

It is not difficult to account for the differences in the price behavior of these groups in the two periods. Farm products have a heavy weighting in the raw material group and Congress did not grant OPA the right to control them; but the semi-manufactured and manufactured groups were subject to rigorous control. We cannot now tell just when the extremes of the current dispersion will be ironed out. Pegging of agricultural prices at 90% of parity for two years after the formal end of the war will probably not prevent a substantial downward adjustment of these prices. Perhaps, it is a good guess that the broad upward trend will terminate some time in the first quarter and that the dispersions will tend to narrow on the down side during the balance of the year.

Behavior of Relative Prices

If the BLS all-commodities index and each of the 10 component groups are plotted monthly for the period from 1914 to date, we can obtain a more detailed picture of the behavior of relative prices. Between 1915 and November, 1918, the chemical and drug and the farm products groups maintained the highest relative positions and the metal products group was also relatively high until price control was invoked. Housefurnishings, building materials and the fuel and lighting groups were the submerged groups and remained in this position until Spring 1919.

In the period from May, 1919 to May, 1920, the hide and leather, textile, and fuel and lighting groups staged the great advances while foods held the most submerged position.

In the World War II period, the building materials and hide and leather groups soon soared abnormally and in 1943 the farm product group began its great rise. Fuel and lighting was the most depressed group.

Thus far in this second postwar period, the farm products foods, and hide and leather groups have climbed seriously out of line while the fuel and lighting and the chemical groups have been most depressed. With decontrol, there has been a rather rapid upward readjustment of all groups; and the stringently controlled items are moving into better alignment with the general average of all commodities.

Still another broad view of relative prices can be obtained by plotting the BLS consumer price index and the component parts of that index. In World War I, food and clothing components soared rapidly and fuel and lighting and miscellaneous items were lowest in relation to the average. In the 1919-20 inflation, the clothing group moved most seriously out of line on the upside with food and, later, furniture. In the second period, food, clothing and furniture were the highest groups and fuel and lighting and housing were the submerged groups.

Smaller Price Distortions Now

Aside from the fact previously mentioned that the price inflation of World War I began on a higher level than it did in World War II, study of the group dispersions indicates that thus far at least the price distortions are of smaller magnitude than in the earlier period. The techniques from which this broad conclusion is deduced are far from perfect; but, with all their defects, they seem to support this position. Critical tests will come in the next few months. There is some reason to hope that we can achieve a new price equilibrium without too severe a strain on the economy.

For the past several months, there has been wide-spread discussion in the press and at trade gatherings of the dangers of extended inventory and commitment positions. The economic havoc of the 1919-20 price debacle has been effectively dramatized. It is probable that the acute awareness of the dangers in price distortions will operate to make the pending readjustments far less serious than they otherwise would have been. There is too much fundamental soundness in the broader business outlook to warrant a "boom and bust" attitude toward our current problems.

Industrial Share Prices in 1947

(Continued from page 3203)

have employment at high levels or falling prices in 1947. The return to office of the Republican party signals an increase in the relative power of business managers and their financial partners. Other groups, farmers, labor executives and the like, still wield great influence, and there are other reasons beside those outlined below which may affect the stock market; *but the rate of expected profit is one, if not the bas c consideration.*

Profits "the 64 Billion Dollar Question"

The size of profits in the future, six to 12 months ahead, is the 64 billion dollar question which the poor 25 - thousand - dollar-a-year men must answer. This is the enigma of the department store head who worries in December about purchases of women's clothing to be sold in the fashion-fickle market of next May and June. This is what is on the mind of the capitalist who may stare at a Florida landscape, but cannot decide whether or not to order a million dollar addition to his plant back home.

The question of timing the moves is at the root of most business calculations and errors; should the new equipment be bought now, the inventory decreased or increased, the new sales program started now or later, or should the new product be put on the market today or next year? Since the results of decisions today do not appear until six or eight months have passed, the problem of estimating subsequent profits is extremely complicated. Two factors usually decide business planning (1) inventory ratios and (2) prime costs.

(1) Inventory ratios are concerned with finished and unfinished goods on hand. Numbers of dollars are not the all-important consideration; it is the relationship of the size of the inventory to incoming orders, to invested capital, to cash, to all kinds of facts, including deliveries. If—as was the case during July and August of 1946—retail sales are enormous, but the inventory on hand is just as large at the *end* as at the beginning of the month, then the situation requires the immediate attention of the chief executive. The fact that inventories of manufacturers (as distinct from retailers and wholesalers) in September, 1946, were two and one-half billion dollars higher than at the beginning of the year, is less important for the future, than the fact that two-thirds of this increase took place in the *third quarter alone.* The *rate* of increase is the important thing in relationship to the timing of the increase.

Inventories Harm Positions

Unduly large inventories cripple company operation because a disproportionate share of cash is tied up in unfinished goods. The effect of this situation may be seen in such cases as the following examples of borrowings made partly to bolster their working capital position: Ligget and Myers Tobacco Co. $75,000,000; Gar-Wood Industries $5,000,000; Simmons Co. $1,516,000; West Virginia Coal and Coke Co. $3,000,000; Cornell Wood Products Co. $1,250,000; Fruehauf Trailer Co. $9,000,000; H. S. Heinz Co. $4,850,000; Hunt Foods, Inc. $4,000,000; International Business Machine Corp. $30,000,000; Standard Cap and Seal Corp. $1,500,000—and many others. This financing is usually expensive. Moreover large inventories are risky because of possible price declines—thereby endangering expected profits.

Cost Relationships

(2) Prime costs are a second group of economic troublemakers. Prime costs are labor costs, raw material outlay and other direct out-of-pocket expenditures. The important point about prime costs is not whether they are high or low, but their relationships, especially to selling prices. In the main, it is the difference between prime costs and selling prices which determine future profits. Labor costs are rising and the effort of unions to maintain high wage levels results in rigidity of manufacturers' costs—a rigidity which is dangerous to future profits, especially in the event of price declines or low business volumes at higher prices. An increase in prime costs, therefore, leads to anxiety and skepticism as to profits in the ensuing six to twelve or more months.

Full Employment Act and The Economic Future

(Continued from page 3206)

knit system is to work efficiently, these multifarious plans and activities must bear a consistent relationship to each other in a comprehensive and coordinated scheme of national business life.

Thus the statute became a broad enabling act for systematic study of the nation's business. Under it, there are set up two working agencies—the Council of Economic Advisers to the President and the Joint Congressional Committee on the President's Economic Report. As to the former, the act provides that the President shall, through a group of professionally-trained economists, make continuing study of the entire economic situation of the country. This includes review of the activities of all agencies in the Federal establishment as they deal with economic matters and of all Government policies and programs in order to ascertain whether they are doing the utmost to facilitate and promote full and efficient utilization of the nation's economic resources or whether some of them are inconsistent, directly conflicting, or tending to retard over-all national prosperity. On the legislative side, the act sets up in the Congress a special Joint Committee of fourteen members, chosen for their interest in economic affairs and their capacity for economic statesmanship. They are to make parallel study of the nation's economic life, to the end that the legislative program in the economic field may square with a constructive national program.

Naturally, I shall limit my remarks to the work of the Council of Economic Advisers. The task assigned to us as an arm of Chief Executive's office is, as I see it, broadly comparable to the administrative policy- and program-making that is carried on by the top executives of a great corporate business, in consultation with each other and with whatever research staffs are maintained within the company or drawn upon from outside sources.

This is what I mean by saying the economic philosophy of the Employment Act of 1946 relies on managerial sense and not on any trick remedy. The purpose of the act is to achieve prosperity through promoting efficiency of the nation's business, just as the purpose of a great corporation is to achieve company prosperity through efficiency of over-all and spot management, skillfully joined. As business executives, you must at once recognize the essential similarity between this approach and that of the most distinguished corporate administrations among your own ranks. The Bell Telephone system, General Motors, and the Standard Oil Company (N. J.) occur to one as outstanding examples.

The division of function—local autonomy but overhead coordination—contemplated under the Employment Act is in many ways analogous to the relations between the operating staffs of General Motors plants located at Flint, Michigan; Indianapolis, Indiana; Cleveland, Ohio; Newark, New Jersey, and many other places all over the country and overseas, and the broad policy-making organizational co-ordination and overhead financing which center in Detroit and at 1775 Broadway. Similarly, as to American Tel. and Tel in New York, the Bell laboratories, Western Electric Company, and the highly autonomous operating companies—state, regional, or local. Standard Oil (N. J.) exemplifies the same co-ordination and flexibility between producting, marketing, administrative and research units, domestic and international.

These relationships in private business have been worked out in friendly understanding over the years, and I trust that the years ahead may see, under the Employment Act of 1946, a comparable development of friendly understanding and organizational effectiveness between private and public agencies actively concerned in conducting the nation's business. Of course, the analogy is not a perfect one because you business bureaucrats have a much more tight control over your subsidiary agencies than government bureaucrats have over the policies and operations of the component parts of the economic system.

The Employment Act states with great clarity that its purposes are to be sought "with the assistance and co-operation of industry, agriculture, labor and state and local governments" and "in a manner calculated to promote and foster free competitive enterprise." Furthermore, the council is instructed to utilize to the fullest extent possible the services, facilities and information not merely of government agencies but also of private research agencies and to "constitute such advisory committees . . . of industry, agriculture, labor, consumers, state and local governments and other groups, as it deems advisable."

In conformity with these provisions of the act—and in conformity also with my own deepest inclination and desires—we have established contacts with numerous business, labor and agricultural organizations, and have had around our conference table President Wason and Dr. Robey of NAM President Jackson and Mr. Schmidt of the Chamber of Commerce, Mr. Murray and members of his research staff from the CIO, a group of officials from the Railway Labor Executives Association, a special committee from the Business Advisory Council (consultative to the Commerce Department) and other similar groups. Consultative arrangements thus begun will, we hope, enrich and guide our work increasingly in future years and assure for it a quality of practical realism.

This, then, concludes my first point—that the act of Congress and the actions of the council are not pointed toward monetary manipulation or any other specific formula of economic stabilization and national prosperity, but toward application of the soundest and broadest managerial principles and practices in dealing comprehensively and vigorously with the nation's business. My other two points deal directly with the nature of the government's part in this process and the part which is left to or devolves upon business. For both these topics, the key word is "responsibility."

Government's Responsibility For High Production

By a vote of 320 to 84 in the House and a unanimous voice vote in the Senate, and after long study and extensive hearings, the Congress, in Section 2 of the Employment Act declares that it is the continuing policy and responsibility of the Federal Government to use all practicable means consistent with its needs and obligations and other essential considerations of national policy, with the assistance and cooperation of industry, agriculture, labor and state and local governments, to coordinate and utilize all its plans, functions and resources for the purpose of creating and maintaining, in a manner calculated to foster and promote free competitive enterprise and the general welfare, conditions under which there will be afforded useful employment opportunities, including self-employment, for those able, willing and seeking to work, and to promote maximum employment, production and purchasing power.

This declaration of "continuing policy and responsibility" is, it seems to me, an essential counterpart of the responsibility that top management of any corporate enterprise assumes. Such business leaders undertake to utilize the financial resources entrusted to their care, the body of workers who have become more or less definitely attached to the company's organization, and all the technical and managerial know how which they or their predecessors in office have built up over the years, so as to promote the greatest practicable volume of production with those resources in order that the company may pay as high wages as possible, charge as low prices as possible, and thus maximize the purchasing power of that part of the public who look to them either as employees or as consumers.

The central administration of a great corporation exists only by recognition of the fact that certain powers and responsibilities can most effectively and economically be discharged if delegated to officials and agencies conceived and organized to deal with the business as an integrated whole and to supply an outlook, access to finances, and technical services which cannot be supplied so well or at all by the small and more local constituent units.

The Congress in this act clearly recognized that in this day of large business units, both of capital and of labor, it is not to be expected that the actions of separate units of private business enterprise, with their individual decisions taken under the circumstances in which they must be made, can completely and continuously add up to full and efficient utilization of the nation's total productive resources. Business has always looked to its government for the performance of such special services. It has always expected it to do a considerable variety of things from the Coast Guard and Light House Service to the Bureau of Standards and the county agricultural agent, "to create and maintain conditions under which there will be afforded useful employment opportunities, including self-employment for those able, willing and seeking to work." There is thus nothing revolutionary in the declaration of the present act. It simply reaffirms in clearer terms and gives new implementation to a responsibility which is part of our traditional American system.

It now devolves upon each of us, whether in the executive or legislative branch of the government, to see that, in carrying out the purposes of this law, we study wisely and with due counsel as well as acting decisively and promptly when occasion demands. To this end, we of the council sincerely hope that you of the House of Business no less than those of the House of Labor and the House of Agriculture will join actively and sincerely in our studies of causes that impede the attainment of maximum production, employment and purchasing power and in the making of recommendations which would operate effectively toward the removal of these impediments.

This brings me to my third point, namely the responsibility of business itself in accomplishing the stated over-all purpose of the act, for I assume without question that you do accept promotion of the nation's economic welfare as the prime purpose of business.

The Responsibility of Private Business Under the Employment Act

There was a widespread feeling among business men in the 30's that government was antagonistic to business—even that a death sentence was being pronounced on private enterprise. During and since the war, there has been a considerable rebound from that state of mental gloom. Businessmen have pointed with great pride to the fact that, in the war emergency, private industry performed miracles of production and became the savior of the nation and of the democratic world. It thus demonstrated the superiority of private enterprise over any other system on earth. In the judgment of some at least of these spokesmen, government should now get entirely out of the business field, content that the economic future of the country is safe in the hands of those who demonstrated anew their complete adequacy in the war period. (On examination, however, it becomes clear that they do not want that "entirely" to be taken too literally.)

I believe that both these views require a little re-examination. Without in any sense attempting to justify all the mistakes that were made in the 30's, I do not believe it could be said in any broad way that government hated business or intended to destroy the private enterprise system. I believe that the fair verdict of history will be that there were serious defects and shortcomings in the private enterprise system as it was practiced in the 20's. I believe that verdict too will be that, in spite of some extremists, the great body of sane and intelligent people sought reform and supplementation of private enterprise system, not its destruction.

It appears to me also that even the glorious achievements of American business in winning the war did not quite demonstrate that private management had mastered the last lessons of economic science so well that our economic life should henceforth be turned completely over to them and no questions asked. The war record of industry was a stupendous technological and engineering achievement. But no one, I think, ever doubted or needed fresh proof of the tremendous capacity of American industry in this technological field.

To have carried through the bookkeeping and disbursing operations necessary even to this gigantic operation can hardly be considered a solution of the economic problems of self-sustaining prosperity in a peacetime economy. Business was not, during the war, relying upon voluntary arrangements made in an open competitive market—for goods, for labor or for capital. It did not have to *sell* its war product, simply deliver it. It received material through allocation and got labor under conditions of draft exemption, the patriotic urge, and wage control and strike moratoria which are quite foreign to the bargaining relations of a peacetime market. This war economy was not balancing its books quarterly, yearly, or within the war period. Much of the money that "made the mare go" in the industrial field was pumped in by a process that left us with a war debt of $275 billion.

It seems to me that the country has probably given fair evaluation to all these factors of free enterprise in the 20's which ended in a grand smash; of government control of business in the 30's, which failed to get us out of a depression; and of the wartime business of the 40's, in which government and private business in partnership muddled through the strains of a war emergency but by no means arrived at final answer to the problem of stabilized peacetime activity. In the light of this evaluation, they have, through the courageous but tolerant philosophy of the Employment Act of 1946, given the system of private enterprise a new lease on life, making it the foundation and cornerstone of the system on which we propose to maintain our position as the leading nation in the postwar economy of the world.

This act assures private business a more favorable environment in which to work than they thought in the 1930's they could again count upon. Some might say that, if there was at that time a sweeping indictment brought against the management of private business in this country, it has now been tried out at the bar of public opinion and no death sentence has been passed. It would, however, be too much to say that the charge has been completely dismissed. It might be more accurate to look at the present situation as one of probation, in which it is up to private business management by its future acts, to justify itself in the more favorable surroundings now provided.

I would suggest that the key to this changed and on the whole promising outlook is to be found in the phrase which is common to the Employment Act of 1946 and to NAM declarations of principles and other documents of this body which have been made again and again. That phrase is "free competitive enterprise" in the declaration of policy of the act. You frequently use it in the form "competitive private enterprise." The essential word is "competitive."

I have just called attention to the fact that industry did not operate in a competitive market during the war, but in a controlled market in a deficit economy. Neither have you operated in a normal competitive market during the last year. It was still essentially a seller's market characterized by inflation, the absorption of a substantial amount of wartime savings, and a noticeable resort lately to credit extensions and instalment buying. It is pretty generally agreed that next year business will move into a truly, and at many spots no doubt a sharply, competitive market.

That will be the testing time of business. It is up to you to show your capacity to do business in a buyer's market. Unless you can allow the full volume of productivity of our capable labor force, our ample plant and our marvelous technology to continue unabated and absorb within your long-time accounting, financing and managerial system such price declines as result, you will not have shown a capacity of the competitive free enterprise system adequately to serve the nation's needs.

I am not suggesting that this is easy. But, over all and in the last analysis, production provides its own purchasing power and the level of prices is not important if the whole wage and price structure is properly adjusted part to part. It is the attempt to prevent or slow down such adjustment by protective actions that restrict the volume of production that creates the mischief. Competition works itself out in a market of small units because no one can arrest or interfere with the competitive process. But our world of large organized units gives plenty of chances to put sand in the bearings if the respective parties want to try it. Turning one's back on such evasion of the law of supply and demand and finding ways to go on with full use of available resources—that is the meaning of competitive private enterprise and the challenge of the years ahead. It is your responsibility to the system in which you profess undying faith.

At this point, you may say that I should not be saying all this to you but to the labor leaders. It is quite true that this applied also to them. I hope some day I'll have the chance to say it to a labor audience. But you can't pass the buck to labor any more than labor can pass the buck to you. They also regard themselves as part of the system of competitive free enterprise, and you must both of you find a way of getting together to hammer out a mutually sound adjustment.

I happen today, however, to be talking to management, and so there is one general point I want to leave with you concerning the issue of stimulative competition *vs.* restrictive control. It is part of your responsibility in building a competitive system that will bring about maximum production, employment and purchasing power to see that, in coming to government for economic legislation, you do not seek restrictive measures but rather those that prevent restriction, price maintenance and monopolistic control—just as much on your side of the fence as on labor's.

Management is talking today a great deal about labor monopoly. As an observer, I am quite aware that it exists. As an economist, I see and deplore—for labor no less than for the rest of us—the deleterious effect it has, at those places where it exists, on the attainment of "maximum production, employment and purchasing power." But let me caution you that in your efforts to purge labor of restrictionism there be no hidden desire to make a buyer's market for labor or that your own structures and practices do not harbor monopolistic restrictionism of your own. I hear a good deal about plans for fighting price readjustment in 1947.

My final word is as to the tremendous importance of the responsibility that at this moment devolves upon us all. Whether operating through the private organizations of business or the wider public organization of government, we face a solemn hour of testing. At the end of a struggle that leaves most of the world lean and sick among ruined plant and meager resources, we are fat and strong and richly supplied. Are we going to spend so much of our time in quarreling over the division of the product or the prerogatives of management and the rights of workers that the product itself is curtailed and our rich resources stand only partly used?

It does not seem to me to require any abnormal degree of nobility amongst us to hope that we may come together for collective bargaining in good faith between the two basic partners in business so that production can go on so that all may share more largely. On the contrary, failure to do so would seem to me to reveal an unbelievable strain of stupidity or lack of the practical business sense or flair for efficiency that we like to call American. The major gains of "maximum production, employment and purchasing power" would go to our sleek selves, not the hungry and weary of other lands. But sustained prosperity here would help them much by furnishing an active market in which they could sell and a productive market from which they could buy sorely needed goods. I would not be so quixotic as to suggest that America divide its coat with the poor man overseas. But we presumably would not grudge it if, by spreading as bountiful a table for ourselves as we are capable of providing, more and bigger crumbs fall to the mouths of the less fortunate.

Forecastability of the Stock Market

(Continued from first page)

simple to discover. First of all, unlike most forms of solitaire, it is a game at which the chance of never winning is mathematically remote. And the elusive Jack Pot is always just around the corner, waiting to be tapped by a fool, a scholar, or a man of destiny.

There is a forecaster in this city who has not had a good word for common stocks since Herbert Hoover left the White House. A friend of mine pointed him out to me last summer. "I feel sorry for that chap," he said, "but when my customers and your customers are deserting us like rats he will have emerged as the Roger Babson of the postwar boom." For, ladies and gentlemen, as the salesman said of the watch he was selling, "Even if it stops it will always be right twice a day."

Charms of Statistical Solitaire

Another charm of statistical solitaire is that no prediction, no matter how grossly erroneous, how grotesque in the light of subsequent fact, can be alibied away. The chart reader will tell you that his chart was right but that he erred a tiny wee bit in his interpretation. Or one can take the attitude of the late Burton-Baldry of London. All through the troubled 1930s, when one day it was war and the next day it was appeasement, Burton-Baldry with Catonian persistency said that there would be no war. Hardly had the Germans entered Warsaw than he issued what turned out to be his last letter. "I have been proved to be wrong," he admitted, "but whereas others were wrong many times, I have been wrong about war only once."

Thus it comes about that I have succumbed to the temptation to forecast. And this is the correct seasonal time for forecasting. One of this city's great newspapers is even now preparing a compendium of forecasts for 1947, to be included in the Annual Review which all of us will save for several weeks with good intentions.

The man working on this compendium was very distressed the other day when the paper received a message from a prominent industrialist saying only, "GO TO HELL." Cautious inquiry revealed that the industrialist in question, instead of receiving the standard request for a 300-word statement on what business would do in 1947 had received a request for a 3-word statement.

Before attempting to forecast the stock market, it might be well to inquire into the forecastibility of the beast—a word I use advisedly.

Stock Prices vs. Values

First of all, when we speak of forecasting the stock market we obviously mean stock prices and not stock values. I suppose all of you can recall that day long ago when teacher explained that sound can never catch up with light—it's the unfairest race in history. And it is the same with price and value. As soon as price hits the spot where the slide-rule said value would be, value is up in the hills or down in the valleys.

You can't look at stocks the way a life insurance company looks at its bonds. So far as I know everyone who buys stocks does so with an idea of ultimate profit. The French say stocks were made to sell, that's why they have a Bourse. In the Street, it is said that stocks were made to sell, that's why they give you a piece of paper. If you buy a stock at 100 because its value is 120, and a year later its value by whatever system you use is 140, you do not feel any better if meanwhile the stock is down to 85.

There is a considerable body of men who leave all considerations of value out of their calculations and try to forecast stock prices by charts and other mechanistic means. If Russian Czarist bonds look right on the chart, they buy Russian Czarist bonds and no questions asked. Such systems can be fairly convincing, especially if you have a salesman for one of them sitting by your desk. But to borrow a pun so atrocious that I waive all credit for it, I think followers of these systems are *putting the chart before the horse.*

Systems

I do not profess to be familiar with these systems because I am not sufficiently greedy to be willing to exchange what brainpower I have for a calculating machine. But I have seen many of them in actual use and regret to report that their users seem more persistent than pecunious. Although many will disagree, I feel that such systems, while perhaps being useful tools in the kits of some forecasters, seem in themselves on a parity with systems to break the bank at roulette. Or to break the totalizer at Jamaica.

The most persistent advocates of these systems are the men who sell them. But to them I have often felt like saying, as did the rustic to the would-be city slicker, "If you're so smart why ain't you rich?"

A second approach to forecasting is by statistics and the forecast of values. And then the forecasting of the discount or premium between value and price. It seems to me that the discrepancies between value and price are so variable that a reasonably accurate forecast of stock prices by scientific methods is highly improbable. By scientific methods, I m e a n methods sufficiently standard so that two statisticians of equal statistical ability starting at the same time would arrive at the same conclusion.

It is statistically possible to say at a given point "prices look high." But the practical stock trader will say, "OK, Mr. Analyst, but how much higher can they go and how long can they stay up?" Without those two answers, the fact that prices "look high" is of interest only to capital of vast patience and small avarice.

I do not know of any way of forecasting the extremity or the duration of a move in stocks. I know many of you will disagree, but I think that the best that a statistical approach to the stock market will do is to raise caution signals. And while in individual stocks statistical study is essential, its greatest value is in determining the attractiveness of a stock price in relationship to the market as a whole.

Over the last few years there have been many studies of the break-up values of utility holding companies. I recall one that was so confident that the end figure was given with decimals attached. But few, very few, warned the reader that this value was subject to revision without notice if general market conditions changed.

Another drawback to the pure statistical determination of the value of a stock is that most stocks and groups have individual "habits." For many years Radio Corp. of America has persistently sold for more than statistical yardsticks would indicate it should, whereas South Porto Rico Sugar has sold for less.

To over-simplify, the price of a stock is what somebody will pay for it. It isn't even the price you see in the paper. As one cynic remarked, you can't sell them to the New York "Times."

I believe that market place skill develops an ability to guess what the price movements may be over short-term fluctuations, and that a correct forecast of business and monetary conditions can give important clues to probable lon-term trends, but that market forecasting can never be an exact science except within narrow limits. This is regrettable because the big profits are made by utilizing the extreme limits.

Should Be Business Not Pastime

If I am correct in my assumption that profitable stock market forecasting can be accomplished by neither mechanistic or purely statistical means, it would seem logical that the most proficient forecasters would arise from the ranks of those men to whom observation of the market is a business and not a pastime, and who possess or can obtain the necessary statistical data. But there are several reasons which, while not disqualifying brokers as forecasters, would seem at least to prejudice the case against them.

The first trouble with the broker is that all he reads and hears is practically without exception bullish, except possibly in the last moments of great declines.

Last summer, when something obviously had begun to ail the market, all I heard was, "Well, we can't expect much of a rally until Labor Day." Later, after the decline, it was, "Wait until the election." Now it's, "Wait until after the holidays."

That book on Wall Street mores entitled, "Where Are the Customers' Yachts?" summed it up by observing that practically no broker leaves to get a bite to eat without looking at the ticker and sagely remarking to all within earshot, "It looks like a rally after lunch."

And as for reading matter, all of it except what an analyst prepares for private consumption, is just about universally bullish. Once in a long while a study will come to the gentle conclusion that perhaps "better situated issues" may be found.

All this makes independent thought very difficult. There are a few men in the Street who have achieved it. Unfortunately, most of them have labored so hard not to follow the crowd that they have become congenital bears, never relaxing for those great speculative markets when the wise man follows the fools, and only the fool tries to be wise.

Clients Demand Bullishness

Another difficulty the broker faces as a forecaster is that his clients want bullishness and his business needs it. He must be master of his subconscious as well as his conscious if he is to remain unaffected by the knowledge that a firm without buying suggestions will not only get few new accounts but is apt to lose many old accounts unless its bearishness is rewarded with immediate and startingly visible results.

By what has been said thus far I hope I have pointed out the hazards of successful market forecasting sufficiently so that if I am totally wrong in what I am about to say, nobody will be the least surprised. But of course if I am right, I shall take full credit for great wisdom. In this respect I am perhaps like a customer for whom I executed a very difficult order right at the close. "I hope you are satisfied," I said to the customer. He looked at me with an air of great innocence. "How can I possibly tell until tomorrow?" he asked.

Higher Prices Expected

I think that the selling since midsummer has brought the stock market to levels below those justified by conditions likely to prevail towards the end of 1947. For that reason I believe that some time next year we will see prices considerably higher than at present. During the interim there may be weakness here and there but I think numerous stocks are already at safe levels. I don't see why so many people who failed to catch the top of the bull market are so sure they can catch the bottom of the bear market.

My prediction is based on the belief that sufficient immediate demand for goods exists to permit a reasonable rate of business while the misfits in our economy are being straightened out. It is also based on the belief that there will be no general weakness in commodity prices. But perhaps these beliefs are too hopeful.

If they are, the alternative would be a sharp decline in business, general deflation, and large unemployment. Perhaps the new Congress would sit by and take it. I doubt it. Once again the economists would be summoned with a cry of "Quick, boys, the needle."

My letters have often referred to "The Great Inflationary Market of the Forties." Perhaps the word "great" will have to be dropped. But the debt is still with us, we still lack the national willingness to pay it the hard way, and under those conditions I see no reason to anticipate a prolonged or severe decline from here on.

"Errors and Omissions Excepted."

Danger to Liberties Of Mankind Seen In Present Conflict

The conflict between power and liberty has "never been so acute," never so dangerous to the liberties of mankind as now, it was asserted on Dec. 5 by John W. Bricker, Republican Senator-elect of Ohio. These remarks were credited to Mr. Bricker in the New York "Herald Tribune" of Dec. 6, which, it noted, he made in addressing the annual banquet of the Toy Manufacturers of the United States of America, Inc., at the Hotel McAlpin in New York. The address was extemporaneous, and in its further account as to what Mr. Bricker had to say, the "Herald Tribune" stated:

The fight to preserve and spread the ideals of human liberty "is resting on the shoulders of the people of this country," he said, adding that the Anglican system of law and the English-speaking people of the world represented "the greatest power for freedom in the world today."

The greatest danger, he said, comes from "within, not without," the country. He said the "quickest way to make the nations of the world again respect America" was to purge from the Government everyone harboring alien philosophies.

Christmas Greeting Cards

Printed greeting cards mailed domestically under cover of unsealed envelopes are chargeable with postage at the third-class rate of 1½ cents for each 2 ounces or fraction of 2 ounces, Postmaster Albert Goldman announced on Dec. 5, his advices also stating:

"Printed Christmas and other greeting cards in unsealed envelopes may bear a simple written inscription not in the nature of personal correspondence, such as "Sincerely yours," "Merry Christmas," "Happy New Year," "With best wishes," etc., together with the name and address of the sender and of the addressee, without subjecting them to more than the third-class rate.

"Christmas greeting cards for U. S. soldiers overseas mut be sent in sealed envelopes and prepaid at the first-class rate of postage 3 cents for each ounce or fraction of an ounce.

"Greeting cards, sealed or unsealed, bearing written messages other than the simple inscriptions above mentioned, as well as all cards sent in sealed envelopes, are chargeable with postage at the first-class rate of 3 cents an ounce or fraction of an ounce."

Postmaster Goldman also advises that large numbers of Christmas greetings, mailed in unsealed envelopes at the third-class rate of postage, are disposed of as waste each year because they are undeliverable as addressed, due to removal of the addressee or other cause. Such greetings are not entitled to the free forwarding privilege accorded those mailed in sealed envelopes at the first-class rate and consequently, the senders in many cases never know that the greetings were not received by the addressees. This would not occur if the greetings were mailed sealed at the first-class rate. In view of the foregoing, patrons are urged to send their holiday greetings at the first-class rate, as when so sent the greetings may be sealed and contain written messages not otherwise permitted.

Should Obsolete Equipment Be Replaced Now?

(Continued from first page)

complex factors involved lead him to the conclusion that "the readiness with which an economy translates the results of technological progress into new investment, the resistance which it shows to depression, and the ease with which it recovers, depend in large measure upon the willingness of industrial enterprises to increase their expenditures for equipment and for the development of new products more or less regardless of the general business situation—to step out in advance of other concerns and make commitments. In other words, it depends upon the relative attractiveness of venturesome and daring production plans in comparison with cautions production plans. The dynamic influence of venturesome production plans has been under-rated in recent economic developments."

Some overly conservative organizations may deem it advisable to postpone capital improvements until the depression phase of the next cycle in the hope of getting equipment and installation at lower costs. To this Professor Slichter says: "These things may happen, but they cannot be counted upon to happen. In fact . . . unemployment may provoke a flood of attempts to protect markets by restrictions which narrow the area of innovation, cut the marginal return on investments, and produce unfavorable shifts in the schedule of liquidity preference. Numerous examples of this kind of response can be gathered from the recent depression, both in the United States and abroad."

In this statement we have an explanation for the failure of the railroads and many other industries to make the capital investments during the last depression that in theory they should have made. The marginal efficiency of capital is highest during the prosperous phase of the cycle—as now. Under the circumstance, it seems expedient and advisable to purchase and install new equipment during the prosperous phase of the cycle while the marginal efficiency of capital is highest. Especially is this true when such new equipment is to a large extent only a replacement of inefficient, obsolete, worn-out machinery that is a constant maintenance liability.

That the marginal efficiency of capital investment will be higher now and in the near future results in part from the fact that there is no assurance that the cost of new machinery and its installation will be less over the next few years. Instead, the trend will probably be higher instead of lower. Furthermore, the quality of the new machinery will be better than that now in use. The resulting savings should tend to balance higher costs today, compared to prewar years, and thereby further increase the marginal efficiency of the new capital investment.

Even though costs are up now 30% to 40%, the maximum reduction in cost of new equipment and its installation would not be less from existing levels by more than 5% to 10% if we should have a serious depression in 1947. This is, however, quite unlikely and improbable. Since a serious price break in 1947 is a remote possibility according to a large majority of economists in the country, it may not be advantageous to postpone such purchases. Indeed, the overwhelming opinion of economists now is that there is no real depression ahead of us for at least five to eight years.

Even assuming they could be wrong, new machinery bought and installed now would increase the efficiency of the plant and enable it better to weather such a depression than could possibly be the case with existing equipment.

Again it should be pointed out that even when financially able to do so, industries just don't buy new equipment during depression because of the lower marginal efficiency of the capital. In periods of depression the government is the only agency or organization in a position to make capital improvements in the form of highways, parks, postoffices, etc. Private business cannot do so. If it could, there wouldn't be a depression. The government can make such investments out of borrowed money, regardless of the marginal efficiency of the capital investment. Industry finds it expedient to make such installation during periods of prosperity when the marginal efficiency of capital is high.

Again quoting Professor Slichter, "Nothing can prevent us from realizing the possibilities of modern technology, except unwillingness to place a high valuation upon certain common interests, particularly our interest in enterprise, experimentation, innovation. Never has the folly of narrowly pressing special claims been greater."

Not only can we assume that a depression is not a desirable time to buy because of the low marginal efficiency of capital, which would more than counter-balance any possible reduction of 5 to 10% in cost of the machinery and its installation, but we must reckon with the period of delay until the depression phase of the cycle overtakes us. If the overwhelming opinion of economists is correct that we have from five to eight years of prosperity ahead of us following a moderate recession in 1947 that will largely be confined in its adverse effects to agriculture—then it will be necessary to put off the purchase of the new machinery for at least five years. If the present obsolete machinery can be made to serve for at least five more years—perhaps eight years — then a case could possibly be made for postponement. However, even then, increased cost of maintenance, operation, etc., with obsolete equipment, would probably make it impossible to accumulate the necessary funds with which to make such purchases and installation or to continue operation on a profitable basis.

It is necessary, therefore, that the increased efficiency of the new machinery, lower costs of operation, etc., be considered from the above viewpoint. Gambling on possible small savings from a depression in 1947 seems too large a risk to run in view of the actual cost factors involved.

From the information available to the author, the marginal efficiency of the present obsolete equipment under consideration is low, virtually zero. With a constant, if not rising demand, during the next five years, the marginal efficiency of new machinery will run high.

A Long Period of Prosperity Ahead

Thus, during the next five to eight years of prosperity, the technical efficiency of the new machinery and the greater money return on the marginal efficiency of the capital invested, should work together to justify the purchase and installation now, regardless of what may take place in the way of a temporary recession in 1947. It would seem inevitable that these two factors should more than counter-balance any "high" costs today of new machinery.

On Oct. 18, 1946, the F. W. Dodge Corporation, New York City, released the results of the replies it received from 72 non-government economists participating in a survey conducted by its President, T. S. Holden. The group polled included economic consultants and economists connected with business corporations, financial institutions, universities, and economic research organizations. The author was one of the 72 persons included in the survey.

The majority of these 72 non-government economists believe that general commodity prices will reach a peak in 1947 and then turn down. As a result, they expect a mild business recession with employment not seriously affected. Fifty-three economists forsee the peak and a mild recession to start before the end of 1947; one expected it within 18 months, while 12 expected it after the end of 1947. Only one of the 53 economists who forsee a recession before the end of 1947 expects such business recession to assume serious proportions. Twenty-three of them characterized the coming recession as "mild"; 24 of them, as "moderately serious." Twenty-eight of the 53 (the majority) do not expect serious unemployment; nine expect unemployment of moderate seriousness and 12 expect serious unemployment.

With regard to the duration of the recession, two-thirds expect it to last less than 12 months in consumer goods prices; 60% expect less than 12 months of downswing in building material prices, and 55% expect less than 12 months of declining prices in durable goods, other than building materials.

An average increase of about 5 points in the Bureau of Labor Statistics' index of wholesale prices of all commodities is the expectation of the 53, whereas they expect an average increase of a little under 10 points before the anticipated 1947 peak is reached. The index stood at 128.4 on Aug. 24, 1946.

With regard to building materials prices, 32 of the 42 answers indicate a smaller percentage drop from the peak than would occur in general commodity prices.

The minority of 12, who expect the price peak after the end of 1947, expect larger price rises than do those of the majority group. This minority of 12 expect an average increase of about 40 points before prices reach a peak.

The six economists who refrained from specific answers to the questions asked cited uncertainties in the foreign situation, domestic politics, government controls, and union labor attitudes as reasons why no answers could be hazarded.

Under the date of Dec. 2, 1946, there is a statement in the press to the effect that "13 of 14 leading economists agreed today that the United States is heading into a minor depression, but only one economist believed the nation faced hard times like those of the early 30s."

The United Press polled 14 of the nation's ranking economists on the question: "Do you believe we are heading into a major depression and if so when will it strike and how long will it last?"

Four replied "yes"; nine said "no"; one was undecided.

Nine believed the nation was heading for a minor depression. One saw neither a minor nor a major depression in the offing. Several predicted varying periods of prosperity after a minor depression.

The most optimistic economist in the group stated that he did not see "even a minor depression in the offing, but the confusion created by inflationary forces may cause short-term setbacks which are bound to be overcome quickly by the rising volume of money and its rising velocity of circulation."

In an address to the Economic Club at the Hotel Astor, New York, Nov. 20, 1946, Secretary of the Treasury John W. Snyder asserted that this country is enjoying "the greatest period of prosperity in its history." He decried "talking us into a short period of hard times. . . . We need to guard against the developing depression psychology in this country, which might, if unrestrained, see us literally talk ourselves into at least a temporary period of hard times."

The Secretary supported his theme that no fair appraisal of "America Today" can justify any feeling that a material recession in "America Tomorrow" is inevitable by listing the many evidences of prosperity in the United States today, including the highest level of employment ever experienced in the peacetime history of the country, the sound condition of our banks in contrast with conditions in 1929, and the tremendous consumer demand that exists for housing, and many other commodities. He could have pointed out the excellent financial condition of our farmers in contrast with the virtual bankruptcy of American agriculture after World War I, and the need for capital investments in new and modern machinery that will continue almost unabated for at least several years to come.

Even the present disastrous maladjustments resulting from the unfortunate strike in the coal industry — serious as they are—should not precipitate the major depression in 1947 that pessimistic and over-conservative persons seem to anticipate—unless it lasts unduly long. Instead it may prove to be inflationary to a marked degree in its effects on our economy. Today in this country we have all the ingredients to prolonged prosperity and a higher standard of living except one—the will to work. However, labor unrest does not seem to be a serious factor in the reasoning of those persons who predict a major depression in 1947. In so far as this study is concerned, the outcome of the existing industrial conflicts does not indicate lower costs in the foreseeable near future.

In reply to certain of the questions that were asked, the author stated that he anticipates a mild recession in 1947, but not a serious one. He does not believe it will cause serious unemployment or lower wages, nor will it cause a prolonged period of readjustment. Agricultural prices will be the ones most seriously affected, but government support must be reckoned with here. He can see no important reductions in prices of machinery and its installation of the type needed by this concern within the next several years. It is his opinion that a serious depression that will affect prices and wages materially is five to eight years away. He can see little or no gain from any delay in the purchase and installation of the equipment needed to replace the obsolete and worn-out machinery.

Instead, the concern will miss the opportunity to use the new machinery when the marginal efficiency of the capital investment will be high.

It will fail to realize on the maximum depreciation under our tax laws while taxes are high.

It will fail to market its product while demand is reflecting the increased purchasing power of consumers.

The concern will be producing at higher costs, whereas with new machinery, it can produce more efficiently at lower costs and in greater volume.

It can pay out its investment in a shorter period of time.

It is producing a luxury product, the demand for which will be less in a depression. Experience shows conclusively that a plant not built or modernized in a period of prosperity is certainly not going to be built in a period of depression even if equipment and labor costs are lower and in many cases, even though funds are available.

If the concern could delay the purchase and installation for a period of five to eight years, it should be able to buy and install it at a lower cost. However, the author does not believe that the concern can afford to gamble on any "savings" from such a delay in the foreseeable future. On the other hand, if the investment is made now, it will be in a position to face the future with confidence regardless of the particular timing of a recession or even of a major depression. For, in the author's opinion, the marginal efficiency of capital during the next five years will be greater than at any time since the early 1920s.

Every business today must view its expenditures in relation to tax laws. Obsolete machinery and equipment that can no longer be depreciated is a tax liability. New equipment that is subject to a normal 10% annual depreciation can be a major factor in reducing taxes and reduce the cost materially of such new equipment. Under present tax laws that call for 38% or higher taxes, this is a major factor to be considered.

Furthermore, the trend in the future should be toward lower taxes. This means that an early purchase of new equipment will effect a *greater* tax savings through a 10% annual depreciation, than if its purchase is delayed to a later date. In dollars and cents this is a strong argument for purchases now of new and necessary equipment. The present tax laws hold out a major incentive to buy now any new equipment that is needed or can be useful in a modernization program.

The longer major tax reductions are postponed, the greater will be the benefit to a company which purchases its new equipment now on the basis of an annual depreciation of 10%. Furthermore, even if taxes should be reduced 10 to 20% in the next year or two, the sooner such purchases are made, the greater will be the credit on taxes from such depreciation. To postpone such purchases until a possible depression phase of the business cycle develops would cancel this item of reduced cost through an annual 10% depreciation on a higher tax level.

Photo lithography plants that purchased new equipment in the boom period are the ones that survived the crisis. This is a concrete example of the practicability of capital investments when business is good. Invariably, those business firms that delay such purchases in anticipation of buying new equipment and modernizing in the depression phase of the business cycle, are unable to weather this phase of the cycle in competition with those firms that were bold and progressive when business was good.

Industrial Investment Decisions

Economic expansion takes place during periods of prosperity. In an article, "Anticipations and Industrial Investment Decisions" in the "American Economic Review," Supplement Part 2, March, 1942, Professor Norman S. Buchanan states that "the marginal efficiency of capital to the firm, tends to be a function of the degree of competition and the presence or absence of technological improvements in productive equipment. . . . The demand for capital goods by imperfectly competitive firms must be extremely inelastic with respect to price. In depression it must approximate zero. . . . The more nearly industries approach the competitive pattern, the more do expense elements come to assume the dominant role in entrepreneurial calculations of the marginal efficiency of capital. . . . Any actual or imminent rise in product prices (for firms in pure competition) is likely to be soon followed by the installation of more productive equipment in order to increase output. . . . The more research and chance discovery render existing plant and machinery obsolete, the greater will be the annual outlays for investment goods on private account. Furthermore, the more nearly the structural organization of industry approaches a competitive pattern, the greater the stimulus to investment from any specific technological improvement. . . . We can be quite certain that any improvement in gross income anticipations will be a more potent stimulus to investment goods buying than diminution in the prospective cost of any one purchased input, e.g., materials or wages. . . . Unless anticipated sales are large enough to tax the production facilities the firm already has, the marginal efficiency of capital will not be positive regardless of how low is the purchase cost of capital instruments. This is the most obvious reason why many firms do not even maintain, let alone expand, productive capacity in deep depression."

Harold G. Moulton et al, of the Brookings Institution, point out in their book, "Capital Expansion, Employment and Economic Stability" (1940), pp. 171-182, that "the effective life of most types of industrial machinery is commonly regarded as approximately ten years. Moreover, depreciation is commonly charged at the rate of 10% annually — a rate which is allowed by the income tax authorities as a basis for computing taxable income. . . . A survey made by the "American Machinist" as of the middle of 1937 indicated that 61% of the machines in place were over ten years of age, a figure that may be compared with 48% in 1930 and 44% in 1925. (See article by John Haydock, Oct. 20, 1937, "Plant Rehabilitation Only Started." In a more recent survey the Warner and Swasey Company of Cleveland polled 251 corporate users of machine tools as to the age of their equipment and the extent to which replacements were made in the three years, 1936 to 1938, inclusive. This census showed that of 120,864 machine tools in place, 67.3% had been bought prior to 1928, and only 9.6% in the three years, 1936 to 1938. The striking fact brought out by these figures is that even in the comparatively good years, 1936 to 1938, the average rate of replacement had been only 3.2%. It is evident from these figures that in the important metal working industry very extensive replacements will have to be made within the next few years if the former productive capacity is to be maintained. . . . The Association of Cotton Textile Merchants of New York has recently made a survey covering the number and age of textile machines. The survey shows . . . that on Jan. 1, 1939, nearly 87% of the spindles were more than ten years old.

It was found that of a total of 193,399 box looms in place as of Jan. 1, 1937, 80% were ten years of age or more. . . . In the case of railroad locomotives the general view is that 30 years represents the maximum of efficient life. . . . This means that the (railroad) company could save money by replacing the locomotive (more than 30 years old) even if the new engine were not of superior model; that is, the cost of keeping the old engine in repair exceeds the depreciation and maintenance charges on a new one. . . . At the end of 1938 less than 5% (of railroad locomotives) were strictly modern, that is, under ten years of age, as compared with 20% at the end of 1929. As of Dec. 31, 1938, 28.03% were 29 or more years old, and another 23.8% were from 24 to 28 years old. . . . Railroad machine shop equipment has likewise aged. In 1939, 70% of the machines in the average railroad shop were over 20 years of age. . . . The useful life of a steam electric-generator — apart from obsolescence—is regarded as being 20 years at the most. . . . By the end of 1939 at least 35% of the capacity was from 15 to 25 years of age and another 28% from 10 to 15 years old. That is to say, more than 60% of the present steam-electric plant should be replaced or rebuilt within the next few years. . . .

Data with respect to capital expenditures indicate that replacement since 1929 has been subnormal. . . . Only a small proportion of the plant and equipment in existence in 1929 had actually been scrapped by 1939. The fact cannot, however, be escaped that the average age has greatly increased and that extensive replacements will in due course be indispensable if productive capacity is to be maintained. It will be recalled that even the wonderful one-horse shay collapsed eventually. . . . The aggregate increase of capital required to make good the impairments and to provide for the increased population was estimated in another study by the Brookings Institution (The Recovery Problem in the U. S., 1937) at somewhere between 22 and 26 billion dollars. . . . It does not appear that any great change in the situation has occurred since 1936. . . .

In view of the enormous requirements outlined above it would appear to be evident that a very great growth could occur in the years that lie ahead, even if there were no development of significant new industries.

Since this study was made most of this machinery and other industrial equipment is six years older, little or no replacement being possible during the war years since 1940.

This study by the staff of the Brookings Institution is vital to an understanding of the problems involved in this survey.

It is quoted at such length to show the enormous demand that does and will exist for new equipment in the several years ahead. If the facts are correct as set forth, it seems difficult to understand how lower prices can be anticipated for new equipment, even if a recession should become a reality in 1947.

The survey proves clearly what has been set forth elsewhere in this analysis, viz., that new industrial equipment is not purchased and installed in periods of depression when the marginal efficiency of capital is low or zero. It is only in periods of prosperity and expanding business that the marginal efficiency of capital expenditures is high, making inexpedient and uneconomical any delays in such investments because of "high" costs of machinery. As pointed out elsewhere in this study —and the above data proves it conclusively — "a plant delayed may never be built."

Forecasts of Business Conditions

Many forecasts of business conditions in the near future have been given considerable publicity. An analysis made by "United States News" for Nov. 1, 1946, indicates that "the six months immediately ahead give every indication of a continuing boom, with high prices and a high volume of sales. A general price break at retail levels is in prospect for the April-June period of 1947." However, "the extent of the recession very probably will be moderate compared with 1920-21 or with 1937-38. . . . Even at the bottom of the recession ahead, industrial activity is expected to be near the level of 1941, which by all prewar standards, was a peacetime boom year. No repetition of the 1929 collapse appears likely in the near future."

In the issue of Nov. 8, the "United States News" states that "the general outlook in business communities is one of restrained optimism. . . . Businessmen appear to feel that a recession (in 1947) will not be unduly severe or prolonged, and they look for a period of good times to follow, lasting perhaps several years."

In the "Commercial and Financial Chronicle" for Oct. 31, 1946:

Stacy May, former Director, Planning and Statistics Division, War Production Board, holds that we are facing a recession, but of smaller magnitude than 1920-21.

Earl L. Butz, Professor of Agricultural Economics, Purdue University, in the issue of Nov. 7, 1946, asserts that the forces that underlie our economy indicate prices will continue to rise. Buyer resistance and increased production may force a recession of prices to "1944 levels." This was certainly not a year of depression!

In the Oct. 3, 1946, issue of the "Commercial and Financial Chronicle," John L. Rowe points out that "discord in political, industrial and social spheres is only on the surface."

In the Oct. 10, 1946, issue, Harold B. Dorsey, President of Argus Research Corporation, argues that we are facing a permanently higher price level due to much higher wage costs and farm commodity legislation. After World War I prices leveled off 45% above prewar prices. Mr. Dorsey argues that the present inflation potential is even more powerful.

Every issue of this excellent paper contains opinions and articles that indicate that any recession in 1947 should be only temporary. Rarely is there a disagreement with this conclusion among authorities, who have studied the problems involved.

Babson's Business Service, Nov. 4, 1946, "Business Depression?" states: "We can foresee readjustments in specific lines of business, both as inevitable and desirable. We do not, however, believe that next year (1947) will witness a decline in business of any such proportions as we experienced in either 1921 or 1929. . . . All in all, we are inclined to be optimistic on 1947. Some corrections here and there will occur, but we predict the biggest volume of production for any peace year.

"Deflationary tendencies (in 1947) are not expected to be harsh enough to upset general business."

It is pointed out in this same issue that to meet the increases in wages, higher prices of raw materials, etc., it is necessary to "cut as far and as quickly as possible." Efficiency must be the byword of those organizatoins which come through the next year or so in good health. Without the highest possible pitch of efficiency, faltering companies will go down. New, up-to-the-minute, labor-saving machinery and devices are the key to the solution of this problem.

From Babson's Business Service, Nov. 4, 1946, we note the following statement: "Businessmen are receptive to making purchases of necessary equipment and supplies when the current situation shows a considerable increase over the corresponding period of a year back. Railroads are showing a 100% gain as against the extremes of despondency last spring. Factory employment is 16% better than a year ago. Payrolls are 22% better than a year ago.

"We are still so far from any cyclical downtrend that most fields of activity can continue to plan for a large volume of business provided imagination is used to keep costs below those of competitors." The major—if not the only—way to accomplish this today is through the use of the latest, most modern labor-saving machinery. Obsolete, worn-out equipment will constitute an unsurmountable obstacle.

"Those businessmen who fear a great depression in 1947 will, we think, later be proved to have been unduly alarmed."—Babson's Business Service, Oct. 28, 1946.

In a free economy, the proper working of the law of supply and demand insures a gradual shifting out of the uneconomic producers. In a period of high demand, such as we are now experiencing, the inefficiency of producers becomes obvious. Unless emphasis is put now on efficiency, inefficient producers will find themselves at a great disadvantage when recession does come.

In this analysis we see a major reason why many progressive industries are insulating themselves now against any reaction in business whether it comes in 1947 or later. It is essential now to set up the most efficient organization possible with the latest new machinery. Such industries survive depression when it comes. Those industries which wait for a depression that may not come for years to equip themselves with efficient, up-to-date new machinery as a rule find that they have waited too long. If and when the depression does come, they are not prepared to weather it.

Authorities are generally agreed that for two years or more there will be an almost universal lack of steel. Today's record peacetime output of steel will fail to make any substantial inroads on the overwhelming backlog of orders. It is a situation that will continue to harass many industries. Indeed, there is slight prospect that supply can or will overtake demand in the foreseeable future. Shortage of steel in 1947 may be even worse. Natural growth is a major factor to be reckoned as basic to a continued scarcity of steel in the indefinite future. Under the circumstances there is little reason to hope for lower prices in steel, machinery, etc., for several years to come. Babson's Business Service, for Oct. 28, 1946, and also Oct. 7, 1946, discussed this in detail.

In the opinion of various commentators, prosperity will continue for an indefinite period. Recent and present uneasiness is viewed as a temporary postwar attack of nerves. There is a state of general economic good health due primarily to the existence of exceptional consumer demand. This economic good health should continue strong because it is backed by unprecedented buying power. More people are engaged at higher real wages than ever before in times of peace. Today's demands will sustain employment and thus create more demands tomorrow.—Babson's Business Service, Oct. 7, 1946.

In spite of current pessimism, it was the opinion of the businessmen who attended the annual Babson Business Conference (reported in Babson's Business Service for Sept. 30, 1946) that the total volume of business will show further expansion in 1947 over 1946 and that it will probably hold its high levels throughout 1947. In fact, they felt that 1947 should show a 5% increase over 1946. There is "the incontrovertible truth that America is still a vigorous and growing nation." A national income of $185 billions is predicted for 1947—a purchasing power that should be spread over all classes of buyers. The only important group that may be vulnerable to a limited decline in 1947—in the latter months of the year—is the farmers. However, even if subjected to the anticipated decline, farm income should still be massive.

Originating from Washington, a sampling survey of the nation, supports the prediction that good times will be long sustained. The basis for this will be the buying power that will flow from current income and expansion of credit, rather than from war savings.

Furthermore, both management and organized labor are agreed now that increased production is essential to the welfare of each group. Here is a real incentive to modernize in order to produce efficiently and economically. "To procrastinate is to lose the chance." The Sept. 9, 1943, and Sept. 2, 1946, issue of Babson's Business Service, discuss these problems in detail.

Finally, in the Dec. 2, 1946, issue of this Service, it is pointed out that even if the current sharp uprising in prices is later replaced by a period of deflation and declining costs, it will not be possible for a long time to come, if ever, to replace plant and equipment at original cost. It is emphasized that "where obsolescence is also a factor, the problem is all the more acute."

Status of Railroad Equipment

A case study of railroad capital expenditures throws much light on the problem.

The "story behind the story" of the present and growing railway freight crisis is revealed by a study made by the American Railway Car Institute, released in October, 1946. This study points out that of the total number of freight carrying cars owned by Class I Railroads in the U. S. (1,770,852 in number as of Jan. 1, 1946):

22.28%, or 394,626 were 21 to 25 years old.

13.76%, or 243,654 were 26 to 30 years old.

18.67%, or 330,536 were over 30 years old.

Nine hundred and seventy thousand freight cars, or nearly 55% now are more than 20 years old. Nearly one-third of a million are over 35 years old. This decline took place in the lean years of the depression and again during war years. A marked rise in the cost of keeping these over-age, obsolete cars running, exceeds $200,000,000 a year, as compared with 1939. (Twenty years is maximum estimated usefulness of a car.)

Of the 39,460 passenger train cars owned by Class I Railroads as of Jan. 1, 1946:

18.02%, or 7,110 were 21 to 25 years old.

8.87%, or 3,502 were 26 to 30 years old.

38.17%, or 15,058 were over 30 years old.

Thus we find a similar trend for the age of passenger cars. As a result of this situation, a rise has taken place in "bad order" cars, a car shortage exists in all parts of the country and rising costs, together with declining revenues, have diminished the net income of the railroads toward the vanishing point.

W. J. Patterson, a member of the Interstate Commerce Commission, stated in a recent address:

"It is time now to commence to restore the efficiency of the plant. Perhaps 25% of the freight cars now in service should be retired without delay." That would be 450,000 cars.

In theory, the railroads should buy new equipment and rolling stock, improve their road beds, right of way, terminals, and terminal facilities during periods of depression when costs are lower and labor is available. Actually in practice few railroads are in a financial position during the depression phase of the cycle to make improvements. Retrenchment is the order of the day. Road beds deteriorate rapidly, rolling stock rusts as it stands idle, for shop-employees are reduced of necessity to a minimum, etc. Those railroads that bought new equipment and made major improvements during the prosperous phase of the cycle found themselves in a far superior position.

The railroads have paid dearly for their failure to eliminate obsolete cars and for not being in a financial position to make capital improvements in periods of good business.* On the basis of this costly experience with obsolete equipment and rolling stock many, if not most, railroads

*The railroads have not been entirely to blame for this since their rates have been subject to control of the Interstate Commerce Commission.

(Continued on page 3236)

Should Obsolete Equipment Be Replaced Now?

(Continued from page 3235)

are today spending millions of dollars.

Evidences of expansion during the present period of prosperity are numerous. It is pointed out in "Business Week," Nov. 16, 1946, that in the January-September period of 1946, 42% of the almost $4,800,000,000 of corporate capital flotations were "new capital" security offerings. Furthermore, commercial bank loans to business generally have soared to new all-time highs week after week in 1946.

The high rate of expenditures on new plant and equipment is a major factor in this development. On page 22 of "Business Week" for November 9, 1946, there is a list of 98 industrial projects in excess of $500,000 approved by CPA since March 23, 1946. These projects are located in all parts of the U. S. and a number of them vary between $25,000,000 to $50,000,000. "Most reports from business leaders emphasize that they are going ahead with their expansion plans just as fast as they can."

In spite of these tremendous outlays of capital investment "we have not as yet experienced a decline in such outlays," although the rate of gain has lessened a little in recent weeks. "Business Week" points out the important fact "that a plant *delayed may never be built" (p. 10)*.

Among these projects is one for $20,000,000 by General Electric, which is "convinced that the demand for electric power generating equipment is going to continue for some years."

General Motors expansion plans call for overall expenditures of $590,000,000 to provide for expanded production. $290,000,000 of this has been spent already.

Westinghouse is carrying out a $132,000,000 postwar expansion plan.

The ceramic or tile industry is expecting new peaks this year and each year in the immediate future. Their volume of sales is now twice the highest sales ever recorded and four times the average annual sales for the years 1927-37. This industry expects to have 51,000 new workers on the installation end of the industry alone. "The entire industry is on its toes and eagerly preparing for volume sales."

The Monsanto Chemical Corp. and the Victor Chemical Corp.—both large producers of phosphates—are making large capital investments. The Victor Chemical Corp. is at present building an entire new plant in Florida. Costs are high now but the marginal efficiency of capital is also high now. Delay would be uneconomic.

Carter Oil Co. is building a complete new refinery ($17,000,000) at Billings, Mont. This is a Standard Oil subsidiary. In the Southern California area, Southern California Gas Co. and Southern Counties Gas Co. are building a natural gas pipe line into Los Angeles. The Pacific Lighting Co. is making new additions.

The Richfield Oil Co. has a program under way that is said to amount to $15,000,000.

The Cities of Burbank, Pasadena, and Glendale are making new additions to their steam plants.

Southern California Edison at Redondo Beach, The Bureau of Power & Light of Los Angeles at Wilmington, and the Imperial Irrigation District at Brawley are all installing steam plants.

The Union Oil Co. is building a refinery at Wilmington.

All of the utilities in this area are overtaxed and are striving to meet the present demand. The marginal efficiency of such capital expenditures will be large regardless of any temporary recession in 1947.

Most manufacturers' costs are going up. This is notably true in the metal working industries.

Steel will cost more. Non-ferrous prices already are up; demand is such that there is no certainty that they will not go still higher.

Labor costs, which are "sticky," cannot be expected to come down even if we have a temporary recession sometime in 1947.

More than twice as much production machinery has been going into existing plants in the U.S. as into new ones. "American Machinist" reports new business for August and September, 1946, as in excess of $49,000,000. Standard business indicators continue to make a good showing with steel and auto operations at a postwar high.

In the September 28, 1946, issue of "Business Week," it is pointed out that "industrial prices are up very little, relatively, the big gains being in farm products. Farm prices have the government support program under them. . . . Don't look for prices to fall nearly as far as they did in 1920-21, even if it develops that we are following a similar postwar pattern. . . . Students of the business cycle will tell you—six, eight or ten months from now—how easily we should have been able to read the road signs along the way. Business statistics are vastly more plentiful and more refined than they were in 1919 and 1920. Just about all of them point to a continuation of excellent business. . . .

Prices now come much closer to being on a "permanently higher level" than they did in 1919 and 1920. The strength of organized labor and the rigidity of wage scales take care of that. Wages won't go down much, short of a major depression."

This statement is of major importance in view of the fact that 30 to 50% of the proposed cost is labor (installation) cost of the new equipment.

The U. S. Department of Commerce has recently issued a study of income payments per capita for 1945, which show the sharpest, most staggering lift in living standards on record. Per capita income payments for the U. S. as a whole during 1945 averaged 113% higher than those of 1939. Gains were at least 100% in 36 of the 48 States. For individual States, California was third with a per capita average of $1,480 compared with the national average of $1,150 for 1945.

An analysis of these figures give us an insight into the economic present and future of our nation. Workers have become used to the highest standard of living that any country has ever enjoyed. Any deflection from that height will be fought "with revolutionary zeal." Workers today are taking financial security for granted.

Obviously, therefore, we cannot expect any important reduction in wages in the foreseeable future. Since costs of installation amount to from 30% to 50% of total costs of the new machinery under consideration, it is difficult to see how any postponement of purchase can be justified if based on the hope of lower costs within the next five to eight years.

Conclusion

It is the author's understanding that the proposed new machinery is more efficient and will operate at less cost. Furthermore, it will enable the company to produce and sell more to meet the present enlarged demand. With the high marginal efficiency of such capital investment, it should be possible to pay out the costs in approximately five years. If this purchase and installation is delayed until the depression phase of the business cycle, it would be impossible to pay out in so short a time. Meanwhile, maintenance costs will likely prove prohibitive if efforts are made to continue to operate with the present obsolete equipment.

It is the author's understanding that the proposed new equipment could have been purchased in March, 1946, at 10% to 15% less than now and that after Nov. 25, 1946, the costs will be an additional 8% to 10% higher due to increased costs of copper. According to the competitive concerns producing this equipment, the prices will go up even more in 1947. No reduction of prices can be anticipated within several years. Under these circumstances further delay will but add to the costs when the new equipment is installed. Meanwhile, prohibitive costs of maintenance of obsolete and worn-out equipment, less production at higher costs, etc. are factors keeping the efficiency of the plant down. If the present machinery must be replaced within the next two or three years—and it seems to be generally conceded that this is inevitable if operations are to continue—then it should be done without delay to attain the high marginal efficiency of the new equipment during the next five to eight years of "prosperity."

It should also be borne in mind that the product must be classed as a luxury, the demand for which can be expected to fall in greater proportion during the depression phase of the business cycle. Hence, it would be quite possible that the installation of new equipment at that time would be inadvisable, inexpedient, and unlikely. The marginal efficiency of the investment would be low—perhaps zero —and the possibility of paying out in a reasonable time would be more difficult, if not impossible.

It seems difficult to justify waiting five years or more for a potential saving that it may not be possible to realize. An approval of this project eight months ago would have saved perhaps $15,000. Even assuming that prices will not go higher—which is doubtful —it seems reasonably certain that they will not be lower for several years.

N. Y. Group of Graduate Banking School Elects

Howard R. Mears, Jr., Assistant Manager of the 34th Street Branch of the Chase National Bank, of the class of 1941, was elected President of The Graduate School of Banking, New York Metropolitan Group, at the buffet supper meeting in New York Dec. 3. Charles C. Joyce, Treasurer of the East River Savings Bank, class of 1943, was elected Secretary-Treasurer. Three members of the alumni group were elected to the board of directors for terms of three years. They are: Clinton B. Axford, Editor of the "American Banker," class of 1943; Briant S. Cookman, Assistant Trust Officer of the City Bank Farmers Trust Company, class of 1944; and Robert F. Marchant, Treasurer of the Bank for Savings, class of 1940. One hundred fifty members of the New York Metropolitan Group assembled for the meeting which was addressed by Dr. Harold Stonier, Director of the School. Other guests included Dr. W. Randolph Burgess, Vice-Chairman of Board of the National City Bank, of New York; Dr. William A. Irwin, Associate Director of the School; and William Powers, the Registrar.

The Guaranteed Annual Wage

(Continued from page 3202)

row that this nation fought for. As the managers of that great force, our obligation is correspondingly great. It is not only our privilege, but our duty to look ahead, to try and see the needs and the wants of our people, then do our utmost to fulfill them. It will be a pretty poor tomorrow for all Americans if the politicians take over by default because the captains of industry regard this responsibility so lightly.

Must have a National Labor Policy

Sure, we must have a national labor policy that will restore the equality of labor and management so that collective bargaining will have a chance to resolve disputes before they develop into ruinous strikes, civil insurrection or what have you, but legislation is only a part of the answer even with a two-way stretch of the imagination. There are basic causes underlying the unrest of our employees, and it is up to management to dig into those causes, recognize them, and resolve them in the public interest.

In my opinion, the principal reason for the strained relationship between labor and management today is the worker's unsatisfied craving for security. We know through opinion polls that he wants security above everything else. He not only wants a job, but he wants it to be a steady job. And, we know that he regards this kind of security far more highly than any synthetic security that the Government can offer him.

This wholly understandable desire of the American working man is reflected in the growing demand for the guaranteed annual wage.

I am warned that the use of the guaranteed annual wage in an NAM meeting hall causes a few people to turn purple with apoplexy, but all of you are going to hear more and more about it in the coming months, so you might as well hear a few things about it from me now.

The annual wage is in the air and in the minds of workers. It has been promoted extensively by the unions and the Government. All of us will admit it is a bad term, and hardly the answer to the worker's known craving for security, because we know that security cannot be guaranteed—at least for very long. All you have to do is to count the Utopian schemes that have tried it, and flopped. The idea that the Government can guarantee security is just as fallacious, because any such Government program is no better than the productive capacity of the economic system which supports it, and that economic system is business—your business and my business, all buiness.

But merely shrugging off the guaranteed annual wage as an impossibility is no answer to the problem. The worker needs something more than the unrevealed nobleness of management upon which to build his security.

Your Association recognizes this basic truth and is tackling the problem, not from the impractical basis of a guaranteed annual wage, but from the practical and realistic planning of stabilized employment so that steady pay and the worker's goal of security will be the natural consequences.

A Program of Employment Regularization

Now I do not need to spend a lot of time telling you about the details of NAM's national program to stimulate management to get behind this forward-looking effort. As members of the Association, you have been kept fully informed of the progress of this campaign since its inception last August.

Some people, particularly our critics, find it hard to believe that NAM is really behind this progressive program. It is still harder to make them believe that the program is not something cooked up to counteract the pressure for the guaranteed annual wage. But the proof is available for all to see. The irregularity of employment in the 30's so disturbed your Association that a thorough study of the subject was made and the findings were published in a comprehensive booklet, "Employment Regularization," in 1940. Nothing more is needed to refute completely such irresponsible charges as made by Philip Murray when he said (and I am quoting from his speech):

"Industrial magnates . . . prefer a status wherein millions of unemployed would be available at ever-decreasing wage levels to be exploited for the benefit of these large corporate enterprises."

That is the picture of you being painted for the benefit of your employees. That is the basis for demands of the guaranteed annual wage, and again I say you might as well get used to that term . . . it's the old case of the wheel squeaking the loudest getting the grease. As careful as I have been to distinguish between the stabilization of employment and the guaranteed annual wage, I have been misquoted numerous times. I know your concern from the number and the tone of the letters I have received. They have been considerate and understanding, but they have truly mirrored the fear and uncertainty about the guaranteed annual wage prevalent in the minds of American businessmen today.

Stabilization Not a Guaranteed Wage

So, I want to re-emphasize the fact that when I am talking about the stabilization of employment in industry, I am not talking about the guaranteed annual wage, and that the NAM's program to stimulate management to stabilize employment is not a move to promote the guaranteed annual wage. And, I also want to take this opportunity to warn you against being misled by the guarantee in the so-called guaranteed annual wage contracts.

In one of the CIO Steelworkers' guaranteed annual wage contracts, I find this condition (and I quote), "nothing herein shall impair the right of the employer to terminate employment of any employee because of change of business conditions or for cause."

In the contract of a large company which has gotten a lion's share of the guaranteed annual wage publicity, there is a clause which reads (I'm quoting now), "it is the intent of the company to maintain it, but the company must and does reserve the unqualified right, to be exercised at its sole discretion, to withdraw this guarantee at any time."

Here is another where the contract may be suspended "in event of fire, floods, wars, strikes or other circumstances beyond the control of the company."

Even in the Hormel plan, which comes closest to the unconditional guarantee, you will find that the guarantee is not necessarily for 40 hours a week, and that the balancing of long and short weeks up to the 2,080-hour annual limit of the Fair Labor Standards Act is basic to the operation of the plan. And even such well-established plans as this one, which began in 1931 and at first covered only a single department, can run into trouble because of unforeseen difficulties such as OPA's unrealistic ceiling prices on meat which prevented cattle shipments to the slaughter houses last Summer.

So you see the guarantee is not yet all that it is feared to be, and in some cases means no more than the one in the Dickens tale about the "person who can't pay, gets another person who can't pay, to guarantee that he can pay."

But irrespective of the limitations of the "guarantee" in these contracts, the companies which signed them at least publicly expressed their good intentions. In addition to improving relations with their own employees, these companies have also won the solid backing of the American people, a majority of whom believe that management has failed to consider the problem seriously enough, and that steady work and steady pay are attainable. In fact, there is growing public sentiment in favor of legislation requiring such action, according to one recent opinion poll.

This jibes with what I've been saying since I started talking employment stabilization to businessmen eight months ago. While many companies lost sight of the problem due to its fadeaway during the war, its resurrection seems certain enough for all of us to do our utmost now to prepare for the time when it does arise again. We'll never have a better chance to prove ourselves and establish once and for all our concern for the national welfare than we have right now when consumer demand and purchasing power promise us the long steady runs we need to iron out the ups and downs of the production curve.

Sees Some Opposition

I am still somewhat amazed at the large segment of management which does not recognize this NAM Employment Stabilization Program as anything more than a philanthropic gesture of management to tide employees over slack periods. That is its most important social aspect, it is true, but if any of you here are similarly misguided, get the idea out of your head once and for all, that this is pure charity.

The achievement of steady employment is equally beneficial to the employees, the company itself and the community in which it operates. You do not have to take my word for this; it is the consensus of the clinics which NAM has been holding through the country in an effort to aid companies actively engaged in employment stabilization programs.

You all know that it takes steady runs—long steady runs—to realize real efficient costs and profits. Broken runs, changes in runs—up or down—reduce efficiency and raise costs accordingly. The idea that labor costs end when a plant is shut down or slows down is a fallacy that management must recognize. The loss of trained workers, the lost efficiency in production, the cost of training new workers, the wastage and spoilage of material caused by untrained employees—all must be figured into the real costs of slowing down a plant. Actual dollar savings in taxes where states have merit rating clauses in their unemployment compensation laws are only one of the many factors to be considered. This all adds up to lower cost per unit of production—the very keystone of successful manufacturing.

Even if you could discount all the benefits to the individual employee, the community, the national economy and the better relations between employer and employee, mere selfish interest should make every management redouble its efforts to stabilize employment. You should be the ones to force steady employment on your employees instead of waiting for them to make you do it.

I do not presume to stand up here and try to tell you from a speaker's rostrum how to stabilize the work schedules in your own companies or your own industries, because that boils down to the solution of your individual problems. But, I do presume to tell you that a great many of those problems are not impossible ones. Some companies have found the answers. Others are making progress.

Whole industries are beginning to cooperate toward the end of providing steady employment. Much of the groundwork has been done for you. Successful methods as well as the pitfalls have been studied, analyzed and classified by your own Association and other such organizations as the American Management Association and the National Industrial Conference Board. NAM has compiled a complete bibliography on the subject, which is yours for the asking. I assure you that a study of the material available today will save you many a trip to the medicine chest for an aspirin tablet in the days ahead of us.

Denounces Indifference of Employers

You know that I am one to try and pick up a cheap headline by tossing brickbats, but I will have to admit that I've been somewhat dissapointed by the indifference of some businessmen to NAM's Employment Stabilization Program. I've made two trips back and forth across the country since June talking employment stabilization, and everybody agreed with me that it would be a good thing except one old fellow who accused me of being a communist. But at the same time that they were agreeing in principle, I encountered such reluctant cases as these:

1. The management which was actually in the midst of a labor shortage, and could not see employment stabilization as a problem to worry about today.
2. The management with a chip on its shoulder because of present or past strike difficulties and the attitude that it was futile to try to promote steady employment when the union was promoting organized employment.
3. The management which was so sure of union opposition to job transfer and long and short work-weeks without overtime, that it was not felt worthwhile to try such a program.
4. The management of seasonal businesses which was almost totally unaware of the progress in employment stabilization and still considers as inevitable the traditional layoffs in slack seasons.

I don't doubt that some of you in this audience have thought of other reasons, but they had better be a lot more convincing than any of these I've encountered. If management is going to preserve its right to economic leadership in this country, it has got to become positive in the solution of such basic problems as helping the American people build the security that they crave so deeply. We cannot afford to be procrastinators, we cannot afford to carry a chip on our shoulders, we cannot afford to permit union interference with the welfare of all our employees, and we cannot be bound by the chains of blind tradition if we hope to provide the industrial leadership necessary to the rebirth of American ascendancy in the world of tomorrow.

Difficulties of Plan

No one knows any better than I the difficulties we face in achieving year-round employment throughout industry, and we may never overcome all of them, but that is no excuse for not trying. That is the challenge to management. With this industrial machine created by the ingenuity of free men and driven by competition and incentive, we have won the reputation for doing the wholly impossible, doing the things that no men ever did before.

That is why I am so deeply confident that if the management of American industry tackles this problem with the same will and determination that you demonstrated in accomplishing the "miracle" of war production, we can some day level off the production curves to eliminate largely the curse of irregular, seasonal unemployment.

I ask each and every one of you, how better can you demonstrate to your employees your concern for their welfare than to let them know that you are doing everything in your power to give them the thing that they want most—the security of a year-around job?

And here, let me warn you, everything you do in organizing and promoting a program of employment stabilization in your own companies must be explained step-by-step to your employees. It may seem strange to you that it is necessary to sell your employees first, but there have been numerous instances where plans were inaugurated without previous consultation with employees and they met with so much suspicion and fear that they had to be abandoned.

Because it is human nature to take any benefit for granted after the newness of it has worn off, a continuous selling campaign must be maintained by management to assure the maximum effectiveness and cooperation on a job stabilization program until its benefits become firmly established in the minds of the workers. And this is just as true as that it affects all other employer-employee relations. It is not enough to follow out all the good industrial relations practices. Management must make its employees aware of them and what makes them possible. Time after time I've had employers come to cry on my shoulder about their labor troubles when their employee policies, wage scales, and working conditions had always been far more liberal than those of their competitors who never seemed to have any trouble.

And almost without exception the fault could be traced to the management's failure to sell its employees on their progressive policies. It allowed them to become an actual detriment instead of an asset to good labor relations. Because they were not informed otherwise, the employees had not only taken for granted their extra privileges and superior treatment, but they soon came to regard the boss as a "pushover," to be knocked off first.

There is a case here in the East which illustrates my point perfectly. It is the case of a newspaper publisher. First to sign a contract with the Guild, and credited with raising the newspaperman's lot in his city from one of the worst to one of the best, he finally had to say "no" to a demand and two of his papers were struck. He offered to sign a contract paralleling that of his competitor, which was stronger in resources, circulation and income, but that wasn't good enough for these fellows.

Because the union's power tactics called for hitting at the weakest opponent, they called a strike on the man who set the pattern for unionization of editorial workers, meanwhile allowing his much stronger competitor to continue operation. In other words, they thought this publisher had become a "pushover," simply because he had never thought it necessary to sell his people on their preferred status in the industry.

Get Co-Operation of Employees

Undoubtedly you have seen this tragedy of misunderstood motives re-enacted again and again in your own cities and industries. The same sort of failure by management to tell its employees the full story of profits, what they result from, why they are necessary, and the untold blessings that they have brought to humanity, keep industry continually sizzling on the "unconscionable profit" griddle. The only story that most of our employees get is from the union boss or in the labor newspapers, and they portray all industrial managers as profit-mad slave drivers. If management is misunderstood, if its profits are misunderstood, then we have only ourselves to blame for not speaking up as individuals to our own employees.

Is it any wonder that the voices from the left get the ears of our employees when we fail to give them the facts and figures about our businesses; when we fail to make them a part of the team; when we fail to give them the sense of security that they need to feel in the business? Management, to my mind, has been guilty of a most serious dereliction in allowing the mistaken belief to become prevalent that business as always against the good things of life; against security; against high wages and against full employment.

Top management cannot shrug this off, nor can the men who are responsible for good industrial and public relations in industry. The responsibility for improving the welfare of our employees, bettering their working conditions and living standards, making them understand and appreciate that they are the beneficiaries of this competitive enterprise system, is a joint one. Top management has got to motivate it, but the industrial and public relations men of American industry have got to carry it out.

It has become increasingly evident to me that only top management in individual businesses can sparkplug a program of employment stabilization. Until the big boss is firmly behind such a program, the lesser executives can go only so far. The success of such a program demands the boldness and the imagination of a successful manager. It requires a sense of social responsibility and the willingness to accept necessary changes in old methods and old standards.

Industrial progress in this country has been built by men with foresight and the willingness to take a chance. They are in a minority, it is true, but that should not discourage us. Leaders are always in a minority.

There is no freedom we enjoy today—be it economic, social, political or religious—that we do not owe to the boldness, imagination and sacrifice of a minority somewhere in the pages of history.

The minority of management can write a new page in history by taking the leadership today in an all-out nationwide effort to help the working men and women of America attain their goal of job security with a sound, workable employment stabilization program.

I urge you, the leaders of American industry, to assume your full responsibility in this forward looking effort to provide steadier employment because:

First—It is the surest way to convince our employees and the public that business is the crusader and the provider of the good things of life—security, a better standard of living.

Second—It is the most important single thing we can do to combat the subversive influences which today are undermining the freedoms of America.

Third—It is the only reliable way to build lasting prosperity for all Americans.

Gentlemen, the high objectives of this program are worthy of the support of all businessmen and business groups, all working men and their organizations and our elected representatives in government. It is a program in the public interest meriting the solid backing of all Americans who yearn for a secure and prosperous tomorrow.

Like all other worthy goals, continuous employment for our people requires the cooperation of all these groups—business, labor, government and the public. Only with that cooperation can management successfully provide jobs that the men and women of America can depend upon next week, next month, and next year.

We know the difficult proportions of the task ahead, and we know that it will take weeks and months and years to achieve, but I feel sure that I can count on you as a chosen few to go beyond the mere call of duty to give this worthy NAM program of Employment Stabilization the steam it needs to build a better tomorrow for all Americans.

New German Bank Laws

Laws drastically reorganizing the German banking system to limit branch banking and curtail the power of central banks have been adopted by the three laender (State) governments in the United States Zone of Germany, the American military government announced at Berlin on Dec. 9, according to Associated Press accounts from that city appearing in the New York "Journal of Commerce," which also had the following to say:

"This action to 'break up undue concentrations of economic power' was taken while the United States is conferring with the other occupying powers on banking reorganization for Germany as a whole.

"The new laws, effective Jan. 1, provide for a Central Bank in each of the laenders to take over functions previously performed by the German Central Reichsbank.

"Stocks of the new banks will initially be held by the State governments, but later will be sold on a prorated basis to the various banks operating within each State.

"Under the new laws, branch banks may operate only within the State where the head office is located and the new Central Banks will not have branches outside the particular State in which they are located.

"This will mean that the branches of the large German chains, which in practice have been separated from their head offices in other parts of Germany since the occupation, now will be completely set apart from these head offices.

"While the new Central Banks do not become the legal successors to the Reichsbank, they will, 'without prejudice to future settlement,' take over assets of the Reichsbank branches within their territories and assume the liabilities of the Reichbank to the extent possible, the AMG said."

Redeem Bonds of Cuba

Republic of Cuba, through Reinaldo Fernandez Rebull, Counsul General of Cuba, is notifying holders of its External Loan 30-Year Sinking Fund 5½% Gold Bonds issued under Loan Contract dated Jan. 26, 1923, that $1,200,000 principal amount of the bonds have been drawn by lot for redemption on Jan. 15, 1947, out of moneys in the sinking fund, at 100% of their par value and accrued interest to the redemption date. The bonds drawn for redemption will be paid at the office of the fiscal agents, J. P. Morgan & Co., Inc., on or after Jan. 15, 1947, after which date interest on the drawn bonds will cease. On Dec. 9, 1946, $569,700 principal amount of these bonds previously drawn for redemption had not been presented for payment.

The British Token Import Plan

(Continued from page 3207)

den rakes, to hoes, to ladies' hats and liquor. The original list contained 47 items; 34 new items were added on Sept. 19, and 36 on Oct. 24.

The United Kingdom imports from the U. S. for a given item are limited to 20% of the value of the U. S. exporter's average annual value of exports from the United States to the United Kingdom during the years 1936, 1937 and 1938. For the year 1946 this is limited to two-thirds of 20% of the exporter's prewar trade with the United Kingdom during the "base years."

The 20% quota may at first sight seem small, particularly to manufacturers who operate on a limited scale. However, the present austerity conditions and the limited foreign exchange balance of the United Kingdom prevent the British Government from allowing larger imports at this time. The shipments allowed are, indeed, only token shipments. However the Office of International Trade is pressing for additional relaxations and greater commodity coverage under the plan.

This Token Import Plan with the United Kingdom is only part of the over-all effort of the Office of International Trade to reestablish as quickly as possible normal commercial trade in all areas.

Operation of the Token Import Plan

To qualify under the British Token Import Plan, manufacturers must establish the fact that they were exporters to the United Kingdom during the three-year period 1936, 1937 and 1938. The British Government has stated that the U. S. Government must certify each manufacturer's statement as to his prewar export trade with the United Kingdom and also calculate the quota to which each manufacturer is entitled. Each manufacturer desiring to qualify submits to the Office of International Trade, Department of Commerce, three copies of Form IT-558, "Request for Certification of Prewar Exports to the United Kingdom," which is shown below.

Who Can Apply for Certification

Any manufacturer who exported items on the approved list to the United Kingdom during the base period, 1936, 1937 and 1938, may apply for certification under the Plan. If a manufacturer wishes, he may authorize his agent or any other individual to apply for his quota. Such authorization must be in the form of a letter from the manufacturer, addressed to the Office of International Trade, stating that the manufacturer has given permission to a particular individual to apply for quota to which the manufacturer is entitled.

Status of Individuals Other Than Manufacturers

Any individual who is not a manufacturer, but who, nevertheless, believes that he is eligible for participation under the Plan through other means, should request a determination of eligibility from the Office of International Trade. Such requests should fully identify applicant's export activities during the years 1936, 1937 and 1938 to the United Kingdom and should explain in detail his reasons for requesting participation under the plan.

The Plan is basically for U. S. manufacturers who sold to British accounts in the United Kingdom. However, individuals or firms who had established markets in the United Kingdom, but who are not manufacturers, may be eligible if it can be demonstrated clearly that such markets were developed by such individuals or firms and not by a manufacturer. Individuals acting as commission agents or forwarding agents cannot be certified under this plan unless they are authorized by a manufacturer who can qualify under the Plan. Such authorization must be made by letter to the Office of International Trade.

To illustrate, if a U. S. dress manufacturer sold dresses to a customer in London, only the U. S. manufacturer is entitled to the exports as a basis for the establishment of a quota under the Token Import Plan. However, if the U. S. manufacturer made domestic sales to a New York firm which sold dresses to his select clientele in London, the New York firm is entitled to a quota based on such sales, as the British customers belong to the New York firm. In this instance the manufacturer did not make an export sale. The export sale was made by the New York firm.

It is impossible for individuals or firms to be certified under the Token Plan unless they can qualify as manufacturers, a manufacturer's authorized agent or exporters who operate as described above. Any other individual or firm must present a letter of authorization from a manufacturer to the Office of International Trade before consideration can be given.

If the New York firm in the previous illustration had acted only as a commission agent, he could not apply for certification, because the established market belongs to the manufacturer and only the manufacturer is entitled to the market under the Token Plan. Likewise, forwarding agents are neither manufacturers nor principals. Forwarding agents, like commission agents, can receive consideration only upon presentation of letters from manufacturers which specifically give authorization to the forwarding agent or commission agent to act as the agent of the manufacturer.

Taking into consideration another theoretical illustration, a U. S. resident buyer representing several English merchants buys dresses indiscriminately from any manufacturer who will sell to him. The account is carried with the manufacturer in the name of the U. S. buyer. In addition the U. S. buyer, when placing orders, requests the manufacturer to ship the dresses to a forwarding agency. The forwarding agency, upon orders from the buyer, receives the dresses from the manufacturer and ships the dresses to the purchaser in the United Kingdom. In this case the U. S. buyer is eligible for the quota and not the manufacturer or the forwarding agent, as the accounts in the United Kingdom belong to the U. S. buyer and not the manufacturer or forwarding agent.

Certification Form

Form IT-558, "Request for Certification of Prewar Exports to the United Kingdom," requests the applicant's name, commodity for which certification is requested, and annual prewar exports for 1936, 1937 and 1938 of the desired commodity to the United Kingdom. In submitting the form, care must be taken to include only one eligible commodity on each form. Administrative operational details prohibit the handling of more than one commodity per form.

Upon receipt of Form IT-558 in OIT the applicant is verified as to eligibility and the average value of exports for the three years, 1936, 1937 and 1938 is calculated. Two-thirds of the resultant figure is the value of the commodity which can be imported into the United Kingdom for 1946.

If the applicant's request is approved, OIT will certify the applicant as being eligible for participation in the Token Plan and will return one copy of Form IT-558 to the applicant together with scrip equal to the amount of the 1946 quota.

Token Export Scrip

Scrip is issued under the British Token Import Plan merely to lessen the flow of paper between the U. S. manufacturers and the Office of International Trade.

Since numerous shipments are usually made by individual exporters, scrip is issued in convenient dominations so that the appropriate value of scrip can be forwarded to the British importer at the convenience of the U. S. exporter. Scrip is issued in twenty-five, fifty, one hundred, five hundred, one thousand and twenty thousand dollar denominations. Each denomination is of a different color. For example, the twenty-five dollar scrip is yellow, the fifty dollar deep pink, etc.

Value of the scrip forwarded to the British importer need be only to the nearest twenty-five dollars. To illustrate, an order for $2,561 would require scrip equal in value to $2,550. However, if the order was for $2,569, then scrip equal to $2,575 would be required. The applicant should indicate in section 7 Form IT-558 the denomination of scrip desired. Sample scrip is shown below.

Scrip issued is identified by a number in the upper right hand corner which is inserted when the Form IT-558 is certified and corresponds with the Form IT-558 case number assigned by OIT. The first part of the number corresponds to the commodity group number assigned to the item at the time it is added to the approved list of items subject to the British Token Import Plan. The second part of the number is a numerical case number. For example, the number 17-601 in the upper right hand corner of the scrip would indicate that the scrip was issued to cover the importation into the United Kingdom of lawnmowers for the British Token Import Plan. The last part of the number, 601, is merely a numerical case number.

The scrip is non-transferable and non-negotiable. Scrip issued to a given manufacturer cannot be transfered to a manufacturer of another product, nor can it be used by the holder for a product other than the one specifically listed on the "Request for Certification", Form IT-558.

When a certified U. S. manufacturer receives an order from a United Kingdom importer he forwards to the importer sufficient scrip to cover the order. The British importer presents the scrip to the British Board of Trade, together with his request for an import license.

One copy of each Form IT-558 certified by the Office of International Trade is airmailed to the British Board of Trade in London. Thus, when scrip, together with a request for an import license, is presented in London, the information contained on the import license request must correspond with the information reported on Form IT-558.

Validity Period of Scrip

Scrip issued for 1946 under the Token Import Plan will be valid and accepted by the British Board of Trade through Feb. 28, 1947. Scrip for 1947 will be issued in January and will be valid from Jan. 1, 1947 for the balance of the year.

How to Request Additions to Eligible List

Manufacturers who exported products to the United Kingdom during the base period, other than those on the approved list, may request the inclusion of their products in the British Token Import Plan by writing to the Commodities Branch, Office of International Trade, Department of Commerce, Washington 25, D. C. Such requests should be prepared around the following outline:

1. Commodity for which consideration is requested.
2. Nature of business (indicate)
   a. Manufacturer
   b. Export Department
   c. Forwarding Agent
   d. Export Merchant

FORM IT-558
(7-8-46)

UNITED STATES OF AMERICA
DEPARTMENT OF COMMERCE
OFFICE OF INTERNATIONAL TRADE
REQUIREMENTS AND SUPPLY BRANCH

FORM APPROVED
BUDGET BUREAU NO. 41-R841

IT NO. (Scrip number when certified)

REQUEST FOR CERTIFICATION OF PRE-WAR EXPORTS TO THE UNITED KINGDOM

(FOR COMMODITIES ON APPROVED LIST)

Neither this document nor scrip issued by the Office of International Trade within the token export quota for the United Kingdom established herein may be used as an export license. The scrip issued are to be forwarded by the applicant to the United Kingdom importer for attachment to the latter's import license application.

1. MANUFACTURER (OR AUTHORIZED AGENT)
NAME
ADDRESS

2. DATE OF APPLICATION

3. APPLICANT'S REFERENCE NO.

4. COMMODITY DESCRIPTION

5. COMMODITY GROUP NO.

6. ANNUAL PRE-WAR EXPORTS OF DESCRIBED COMMODITY TO THE UNITED KINGDOM

YEAR	QUANTITY (No. of units)	VALUE (In dollars)
1936		
1937		
1938		
	AVERAGE VALUE........................	
	20% OF AVERAGE........................	

7. INDICATE THE DENOMINATIONS OF TOKEN EXPORT SCRIP DESIRED

QUANTITY	VALUE	QUANTITY	VALUE
	20,000		500
	10,000		100
	5,000		50
	1,000		25

8. FOR OFFICIAL USE ONLY

TOKEN EXPORT SCRIP ISSUED IN THE AMOUNT OF
$

NOT VALID WITHOUT OFFICIAL CERTIFICATION

I CERTIFY THAT THE INFORMATION CONTAINED HEREIN IS CORRECT AND COMPLETE TO THE BEST OF MY KNOWLEDGE AND BELIEF.

15014 DATE SIGNATURE

GPO—Com 9—p. 1

e. Trade Association
f. Commission Merchant
g. Other

3. Annual prewar exports of described commodity to the U. K.
   a. Applicant's exports to the U.K. during the base years 1936, 1937 and 1938.
   b. Total U. S. Exports to the U.K. during the base years 1936, 1937 and 1938, if known.
4. Distributative organization in U.K. (indicate)
   a. Private customers
   b. U.K. Import Merchants
   c. Home Office in U.K.
   d. U.K. Subsidiary Company
   e. Other
5. Importance of Applicant's Trade with U.K.
   a. Describe facts surrounding original efforts to introduce product in U.K.
   b. Reliance of U.K. on U. S. Supply.
   c. Importance of the British market to your total export trade.

A form incorporating the above points is being prepared to facilitate the filing of requests for additions to the list of commodities subject to the British Token Import Plan.

The effectiveness of presentation will be increased if producers of similar articles make a joint request through their trade associations. All requests for additions to the approved list will be forwarded by the Office of International Trade to the British Board of Trade. All additions will be announced through the press and through the Office of International Trade's Current Export Bulletins.

Status of New Products

Since the British Token Import Plan has as its primary objectives the reopening of prewar established trade channels, products which have been placed on the market subsequent to the base period, 1936, through 1938, cannot be considered under the plan.

Future Relaxation in Great Britain Import Controls

It is not possible to predict the extent to which additional relaxations will be made by the British Government in the U.K. import control restrictions, nor has it been indicated when further relaxations may be expected. However, the fact that the Token Plan originally covered only 47 items and now is expanded to cover 117 items is an indication of the willingness of the British to relax their controls further. The Office of International Trade will continue its efforts to press for additional relaxations as rapidly as possible.

FORM IT-559
(7-8-46)

UNITED STATES OF AMERICA
DEPARTMENT OF COMMERCE
OFFICE OF INTERNATIONAL TRADE
REQUIREMENTS AND SUPPLY BRANCH

IT Scrip No.

Value:- $25.00

The holder of this scrip is entitled to request an import permit from the United Kingdom for token shipments of the commodity for which this scrip is issued for the value of Twenty-Five and no/100 Dollars during the year, 1946.

John C. Borton, Director
Requirements and Supply Branch

15015

FORM IT-559
(7-8-46)

UNITED STATES OF AMERICA
DEPARTMENT OF COMMERCE
OFFICE OF INTERNATIONAL TRADE
REQUIREMENTS AND SUPPLY BRANCH

IT Scrip No.

Value:- $500.00

The holder of this scrip is entitled to request an import permit from the United Kingdom for token shipments of the commodity for which this scrip is issued for the value of Five Hundred and no/100 Dollars during the year, 1946.

John C. Borton, Director
Requirements and Supply Branch

15015

Essentials of British Export Policy

(Continued from page 3209)

kinds of things we need to import will not necessarily be the same either.

But that is only half the story. When we stipulate an overall increase of 75% in exports, that does not define what we shall get in return for those exports at any particular time. Unfortunately the war has completely upset the world markets. Things we used to get from, let me say, Europe are not now obtainable there and have to be got instead from America. In addition to this is another type of disturbance due to the war, that of the exchanges. Many foreign currencies are not now exchangeable for dollars at all, so that their receipt does not help us with dollar and hard currency purchases. This means that we must try to get for our exports the type of foreign exchange that we need to obtain immediate imports.

U. S. and Canadian Loans And Imports

At the moment we are living to a large extent upon the loans from the U. S. A. and Canada, because 50% of our imports come from North and South America, whereas only 14% of our exports go there. We are therefore using the rest of our exports for one of three things. Either piling up an excess of immediately unusable foreign currencies — soft currencies—which we cannot use because we cannot buy with them the things we need, or paying off some portion of the sterling credits accumulated during the war, or else using the foreign exchange to buy articles from other sources which we need immediately. Unfortunately, as I have said, the lack of availability of our requirements in non-American markets is such that we are obliged to let a certain volume of our exports satisfy the first two alternatives, neither of which bring us in the immediate imports that we need. These foreign exchanges which we are accumulating are not at present exchangeable for hard currencies—they are soft currencies.

We are, therefore, owing to the forced direction of trade, forced by war devastation, rapidly spending our dollars from the loans, and when those are spent there will be no more available except what we can earn.

It is therefore of great importance now that we should pay attention not only to the volume of exports but also to the direction of both exports and imports. We must try and get nearer to a balance not only of our total trade but our hard currency trade as well, and unless we succeed in doing that in the next year or two we shall find ourselves in the position of having to take some drastic action in order to carry on.

I do not wish to be misunderstood in giving this general guidance. It is not the intention of the government to force exports into different markets by an extension of export licensing or other controls. But I believe there is room for a conscious and deliberate effort on the part of manufacturers and exporters to take stock of the possibilities open to voluntary action. I do not ask them to neglect the obvious needs imposed by the type of business they do; nor do I suggest that they should forget old friends—least of all those in the Commonwealth and Empire — or that they should not cultivate new friends, wherever they may be, who show promise of becoming old friends. I do ask the Federation (and others represented here) to set on foot enquiries and to stimulate analysis which will lead exporters to exercise the wisest selection between possible markets in the light of our great need for certain currencies. I think you will reach the conclusion that to increase our exports to the Western Hemisphere is an objective of great importance. It may mean a little more work on your part to expand those exports, but I can assure you that it will save you a big headache later on. I need not say that my Department is always at your service—individually or collectively—where it can help with advice or information in the task I have ventured to set you today.

Direction of Exports Important

So the second point I want to emphasize is that the direction of our export trade has now become a matter of real importance.

This raises a third point. Hitherto we have been accustomed, in the light of pre-war experience and particularly of our experience before the first war, to consider exports as the overspill from the home market.

One constantly hears the proposition that exports require a basic home market upon which they can be founded.

We must ask ourselves in the light of the altered circumstances of today— the fact that we are a debtor and not a creditor nation—whether that proposition is still a really sound one. There is today, as I have explained, a double balance of payments problem, and if we can find in any suitable market abroad a demand for goods, which is likely to endure and is of a nature different to those we require or can afford for the home market, may it not be sound policy for us to make such goods primarily for the export market with an overspill into the home market rather than the other way round.

If those goods are luxury goods, which are the most profitable to us from the export point of view, it may well be that we cannot and do not want to afford them in quantity in the home market, but is that any reason why we should deprive ourselves of the possibility of creating a useful export market, if others are prepared to buy such luxuries.

We must therefore examine foreign markets most carefully to ascertain not merely whether they can take the overspill from our home market but whether we cannot manufacture new lines exclusively for export without attempting to float them or support them on a home market. And this applies especially, I think, to those markets where we can get dollars for our goods.

Exports in the sense in which we ought to regard them, that is as the purchasing medium for imports, are just as much part of our home standard of living as are the goods we produce and sell in the home market. The fruit in the shops, the timber in the houses or the petrol for our cars are purchased by exports, or should be, and indeed must be as soon, at the very latest, as our dollar loans are exhausted, and preferably much sooner than that.

Classes of Goods Exported

We should make people understand that exports are not something taken away from the home consumer but rather a means of obtaining for him some of his most essential needs. That is, of course, provided we can obtain imports in exchange for them. If we fail for the reasons I have stated to get a quick return in the form of imports, then it means that though in the future the home consumer may do better, at the present he will suffer. That only emphasizes once again the importance of the direction of our exports.

But nevertheless there must, of course, be some relationship between the volume of exports and of goods for the home market, particularly in those consumer commodities of which there is an acute shortage. This means that we not only have to regard the volume and direction of exports but also the actual classes of goods exported. And here we come across a curious contradiction. Many industries urge upon us the need for them to export more and yet at the same time they press us for better supplies of consumer goods for their own workers, in order to encourage production. This emphasizes the need to pay attention to the actual type of goods we export.

There is a constant tug-of-war between the national necessity of attaining a balance of payments overseas and the equally urgent need to improve supplies for our people in the home market.

One thing is quite clear, that the sum total of these two demands exceeds our capacity to produce, both from the point of view of labor and materials.

It is for the government therefore, as the only body capable of taking a broad overall view, to try and hold a wise balance between these two opposing pulls. Neither side can be allowed to get away with it! We have therefore sought to deal with the matter in this way.

We have tried to increase the folw of goods and share the results of the increase between exports and home markets not in individual types of goods but overall.

In some of the most crucial needs of our people such, for instance, as clothing, the bias must be strongly in favor of the home consumer. In other cases such, for instance, as decorated pottery ware, which is pleasant but not essential, the bias has been in favor of exports. This has given us a balance not commodity by commodity but overall, each party getting the increase in the class of goods most useful.

Forced Direction of Exports

But there is another factor that comes in here and that is the forced direction of certain of these exports. Just as we must look after the vital needs of our own people so there are certain of our customary markets—particularly Colonial and Dominion — which look to us as the suppliers of classes of goods they do not themselves manufacture. In these cases we are bound to give them a minimum of supplies, and this means that there is sometimes very little left for the free export market.

There is a further aspect of this direction of experts which also plays a considerable part. You are all aware of the acute shortages of foodstuffs in the world and one of the difficulties as regards these is to persuade the growers to part with them when there is little or nothing they can buy with the money they get for them, however, high that price may be.

In consequence we have to offer inducement goods in order to try and extract the food needed either by ourselves or by those areas for whom we are responsible. An example of that is the rice crop of Siam and Burma. This again means a direction of exports—particularly of scarce consumer goods like cotton cloth — which have to be devoted to particular markets again decreasing the amount available for free export.

All these conflicting consumer claims, each one of them urgent, have to take precedence to the normal building up of our export trade even in our old traditional markets, and that explains why it is that our exporters often feel themselves frustrated when they see golden opportunities of which they cannot take advantage because the goods are not there—having been directed to some more essential market.

We have tried to the best of our ability to maintain at least a trickle of exports to our customary markets in particular, to preserve our goodwill, but that, of course, is not a very satisfactory public for those who are anxious to build up and expand their overseas trade. But looked at from a national point of view there is no escape from it.

Raw Materials Shortages

I now come to what is one of our major headaches today and that is the raw material shortage. It is affecting both our capacity to produce for the home market, and for export. The latter is the

(Continued on page 3240)

Essentials of British Export Policy

(Continued from page 3239)

more affected, however, since we must retain sufficient raw materials to satisfy our own urgent needs before we can allow it to go into exports. It is more likely that the expansion of our exports will suffer seriously from this shortage over the next few months.

The steel, timber and vegetables oils position are probably the three most difficult. Timber, not so much for direct exports as for packing and similar ancillary services. All three of these export demands conflict with most urgent home requirements, and it is probable that we may have to cut still further the allowances for export in these goods. Steel has already been cut severely so as not to hold up the house and factory building programme and to allow sufficient for our home demands for machinery of all kinds, including that for the mines, for agriculture and transport. There is no immediate prospect of our being able to make good the deficits from imports, though we would gladly do so if it were possible, nor is there any short term prospect of any greatly increased home supply. We have therefore to accept the position that we cannot produce enough steel to satisfy our very heavy requirements without some imports which we cannot at present get.

We have examined with the utmost care the allocation of steel for each end use, and done our best to cut out inessentials and to preserve the supplies for the most essential of our manufacturers, including some export of machinery, cars and so on.

As regards timber, we are, of course, almost wholly dependent upon supplies from overseas—our own woods and forests have been far too heavily cut during the last 6 years, and there is comparatively little left unless we are to destroy our woodlands altogether. But all the world wants extraordinary quantities of timber for repairing the results of the last 6 years devastation. We are getting what we can, but some of our main sources for softwood like Russia and Finland are using nearly all their supplies for rehabilitating their own countries or their neighbors. The same may be said of hardwood, of which we obtained large quantities from America before the war, but today it is almost impossible to get any. We are getting actually about one-tenth of our pre-war supplies from that source.

You are probably all aware of the linseed oil position and its repercussions on many manufacturers such as paint, linoleum and so forth.

These are matters outside our own control, and it is fair to say that we are getting a good share of the available world surplus, but that unfortunately, is far too small too satisfy our needs.

I hope that all of you have been able to study the series of articles on raw material supplies which are appearing in the Board of Trade "Journal," as we are most anxious that industrialists should be as fully informed as possible not only of the present facts of the situation but of the prospects as well so that they may plan their output accordingly.

Conflict of Home and Export Markets

Hardly a day passes at the Board of Trade without some representation to us that the export of this or that product urgently needed at home should be stopped or severely restricted, and in each case there are strong arguments no doubt for maintaining the products in the home market. But if we were to give way to these demands we should rapidly find ourselves with a diminishing volume of exports and a more and more unbalanced trade.

We just must maintain and if possible—if we can get the raw materials—increase our exports or we shall become a real cropper in a year or two.

It isn't necessary for me to add, I am sure, that the only way to get more both for exports and the home market is to increase our production wherever the raw material position allows it—as, for instance, in the case of cotton and woolen goods.

I have tried to explain to you the basis of our national plan for exports. For its implementation we must depend upon the co-operation of industry. We are in the light of the now more stable labor situation working out targets for each industry which we want your co-operation in following out.

We must always remember that our export market is not static but ever-changing and as a result of the war it has changed very greatly.

Quite new lines of production like penicillin, radar, gasturbine engines, to take 3 instances, have come to the fore as really valuable export commodities, and we must encourage these as much as our traditional exports. Others like coal, for instance, have almost entirely disappeared and their place must be taken by others if we are to attain our 175% target.

Wherever these new sources of exports show themselves we want to give them all the encouragement we can, and if we can have early advice of them we can, I think, help in building up an export trade in them.

There is one point that I would like to mention particularly with regard to imports. I have dealt with the raw material position but there are other manufactured goods in short supply which form part of exported products which it is possible in certain cases to import into this country. If in any such cases any exporter thinks that he can obtain such goods from abroad he should let us know and we will do our best to help him in the matter of foreign exchange—however scarce it may be, for we do not wish foreign exchange or other difficulties to stand in the way of such desirable imports.

I don't think manufacturers are slow in coming forward with such requests, but I want to assure them that we shall welcome any such applications for import licenses and do our utmost to facilitate the importation, wherever it is going to expedite or assist our export program.

There are two general points which I would like to stress in relation to our policy.

The first is that we can only attain the volume of export of manufactured goods that we must have if there is a general expansion of world trade compared to pre-war. Pre-war we had 20% of the world trade in manufactured goods, to increase that by 75% without an increase in the total of world trade would mean our having 35% of the world trade in manufactured goods, and that is a figure obviously impossible of attainment. If, therefore, our 20% is to be increased so greatly it can only be by an increase in the total of world trade. If that goes up by 75% then if we can retain 20% of it we can get our 75% increase, and that is why we are so anxious that all countries should follow an expansionist policy, and why we hope for a good result from the ITO discussions.

I may say that the present series of talks have proceeded most hopefully, and if they continue in the spirit that has so far been shown there is real hope for a resulting international policy which will encourage a large world expansion of trade to our and other countries' great benefit.

The other point I want to stress is the need to prepare at once for a sharp competition in the export field. The easy seller's market will not last long — not nearly as long as we and others would like—and we shall then have to retain our place in our present markets and win new markets by the price, quality and design of our goods.

That means economy and production efficiency will be all important as, too, will be Design—the importance of which has been thoroughly demonstrated by the remarkable success of the Britain Can Make It Exhibition.

We have before us a very tough job which we cannot achieve by any slipshod or take it or leave it methods. We have to go out to sell our goods and to make our goods attractive to the overseas buyers, and that wants a lot of hard thought, imagination and hard work, too.

For many months and perhaps even years to come we shall be beset by all sorts of difficulties in the field of raw materials and in the shortage of labor in particular industries—as, for instance, the textile industries. There is no easy cure for these difficulties, they are unpleasant facts which we must try to put round by our ingenuity and hard work—there is no other way.

We in the Board of Trade want to help in every way that we can but we must keep always before us the needs of the consumer and the overall national policy of the balance of payments which is the cardinal necessity of any future prosperity for our people. I am sure that by co-operation between the government and the two sides of industry we shall be able to succeed provided that throughout we study each other's point of view and co-operate with a determination that the national interest shall prevail.

Dominion Bank Warns Against Labor Strife

The entire Anglo-Saxon world must hurl back the industrial warfare now threatening both government and law or "civilization is lost," C. H. Carlisle, President of the Dominion Bank, warned on Dec. 11 at the bank's annual meeting at Toronto. Pointing out that in the six-month period ended Oct. 31, Canada lost $29,000,000 in wages during strikes that involved 119,000 workers, Mr. Carlisle asserted that industrial disputes should be brought before the courts to avoid such unnecessary losses in wages, production and conveniences to the people. In his remarks he said:

"Today we have over the Anglo-Saxon world industrial warfare which threatens the supremacy of both government and law. Such a threat must be hurled back and kept back or civilization is lost. Nothing ever was plainer than that today the strike weapon is being overworked."

Mr. Carlisle warned that Canada cannot escape the influence of world conditions of a confused, unstable and dangerous nature. He added:

"This has been made more than apparent in the recent exposure of an espionage plot, the purpose of which was to give to a foreign nation secret and vital information. The Commissioners made it clear that Communism is the seed bed of the conspiracy. The stealthy, poisonous plague of Communism has fallen on many Canadian localities," Mr. Carlisle said, "and many attributed its spread to educational institutions." Suggesting that there must be a limit to academic freedom, he said "no nation can suffer with impunity the propagation of doctrines which sap the very foundations of its existence."

Economic Outlook for 1947

(Continued from first page)

Back of all, lie: (1) large unsatisfied demands and shortages, (2) great currency inflation, and (3) beginning expansion in plant, equipment, and residential building. These will be effective throughout 1947.

Therefore, the predominant readjustment will be through **expansion in the low** items, both output and prices. For example:

(1) Prices of semi-finished manufactures are low compared with agricultural products. (Metals will rise, while perhaps fats and and oils and grains may decline.)

(2) Finished goods prices are low compared with raw materials. (Flour may raise, while wheat declines; and cloth rise, while cotton and wool do not.)

(3) Building activity will not recede, though prices of building materials and labor may.

(4) Interest and rent are low compared with wages, and the incomes of savers and investors will rise, while money wages will soon be "stabilized."

There will also be a tendency for the quality of goods and the productivity of labor to improve, while prices and money wages are not raised in proportion. Thus the so-called wage-price spiral is likely to keep on spiralling.

Significance of Coal Strike

The significance of the coal strike is, I think, **not** that it will intensify a business recession in 1947, but that it will turn the current period of irregularity (which I had expected to continue into early 1947) to a sharp but short dip in the November-December figures, seen in the indexes of industrial production, freight traffic, and employment. Probably well within three months thereafter, there will begin a sustained upswing in business, and a resumption of the bull market in equities. (The main uncertainty is the possibility of large strikes in the Spring.)

Probably the coal strike will somewhat increase unsatisfied desires, and shortages, which tend to expansion. Probably it will increase business confidence, by causing a general recognition of the need for more equal collective bargaining and a limitation on the monopoly power of organized labor.

The Basis for Conclusion

My conclusion rests upon the following rather extended chain of reasoning, some of the links being positive and others negative. Isn't the basis for a correct forecast always found in laying aside prejudices and eliminating erroneous premises?

(1) My first point is that a most common error today is to believe that it makes no **difference what you use for money.** This is the John Law, or Keynesian approach.

It comes out first in the **overworked analogy between the present and 1919-20.** Some similarities exist, but so great is the difference in the condition of money and credit, that I think it far outweighs any likeness. We have not only abandoned the gold standard since 1919, but have issued such a vast excess of credit and deposit currency that the the value of a paper dollar in terms of gold is at least three times as little as it was in the earlier period. This is bound to make a difference.

End of New Deal Not Deflationary

Again, the idea exists that the end of the New Deal is deflationary. This notion completely fails to allow for the inelastic mass of deposit currency and so-called liquid savings which are now available for use as "money." The ending of the New Deal administration creates confidence in the future of business, thus causing a more rapid turnover of bank deposits and a greater investment demand. These things will turn the potential inflation of 1934-45 into the effective price inflation of 1946-49.

(2) The second error, the correction of which leads to a truer forecast, concerns **the true nature of inflation.** Not only do many economists define inflation as a rise in prices, but some deny that it has any meaning.

The truth, it seems to me, is that we have so increased the quantity of the currency, and decreased the security for the currency unit, that we have reduced the demand for currency. Thus we have created a strong **tendency** toward a reduced purchasing power of the dollar. This is the inflation **potential.** It is primary inflation.

The essential point is that it is **something done to money.**

This potential inflation has been allowed to become effective in several ways, so that effective inflation, or price inflation, is well along. First, it came in government bonds—where there has been a veritable speculation spree. Then it came in farm prices, both commodities and land, and in money wages. (The price of labor has been one of the characteristic inflation peaks in this inflationary period.)

Thus the vast potential inflation is likely to have its way in 1947, with prices higher at the end than in the early part of the year.

Certainly there will never be a return to the price levels or the purchasing power of the dollar as it was in the 1933-39 period.

A point which I would stress is that under our present monetary setup, reserves constitute no limit to our currency issues. There is nothing definite or objective to prevent what is popularly known as the wage-price spiral. Under these circumstances the maladjustment in which one price is low and the other high can be corrected readily by raising the low price. That, I think, will be the general tendency.

In 1919, the inflated condition was largely mere "credit inflation"—bank deposits based on commercial loans. Such inflation is easily and quickly liquidated. The credit is elastic, and the inflation is temporary and cyclical. Now, however, we have a currency based on a monetization of the public debt, the like of which has not been seen since the days of John Law and Mirabeau. The deposit currency is inelastic and enduring. The only way out seems to be to use it!

Inflation Phases

There are two phases of the current inflation: First we went off gold, and inflated our note and deposit liabilities. Then we increased loans, partly guaranteed by the government, the loans being based on inflated prices, or depreciated dollars.

The devaluation and depreciation of the standard dollar will probably never be corrected. The expansion of loans, however, will in due course be corrected. This will be at some such time as 1949-50, or whenever the usual excessive ratios of loans to reserves and to deposits develop.

But no serious credit strain exists now. Probably it will not until the backward prices of various sorts have been inflated to the level of the others. Farm prices are badly inflated; semi-manufactures will now catch up. Government bonds are badly inflated; private equities will catch up in due course. The price of labor is badly inflated; interest and rents will rise to equalize the sharing of the national income.

In general a period lies ahead in which government loans will decline and private loans expand. This is already seen in the declining trend of bank investments and offset by rising commercial, industrial, and agricultural loans.

(3) The third basic error to be

cleared away is the notion that the national income is not directly related to production, but is "created" by government borrowing. This leads to the closed-system economic theory, upon which is based most of the erroneous forecasting of recent years.

One manifestation is the view that deposits (and notes) based on government bonds are as good as or better than deposits based on business loans. Some "feel" that the expansion of bank loans is a menace. They say it will cause credit strain on account of excess inventories, that it means over-production because of alleged excess capacity, and that, now that government spending will be reduced and wages be limited to the productivity of labor, there will be a lack of consumer purchasing power.

None of these pessimistic observations appears to me to be well founded. The expansion of commercial loans, accompanying the return to a system of commercial banking, means that the use of the nation's credit will be directed to productive purposes. Characteristic of the boom in government between 1933 and 1943, was the "creation" of credit currency by bookkeeping methods, without much regard as to the productive use thereof. Now, however, the borrower has to assure a lender that he will have the **means** to repay the loan. Bank demand deposits will be increasingly "derivative," thus being more elastic and more closely related to business requirements.

As loans increase, therefore, the investments of the banks, which largely consisted of government paper, will decline, thus leaving the total earning assets well sustained, if not actually increased. At the same time, deposits will hold up, and **the turnover of deposits will actually increase**—probably a great deal.

It should be noted that the "investments" of the Member Banks have decreased, roughly in proportion to the increase in loans. This tends to keep the total of loans and investments in line with the total of deposits, thus maintaining the cash position. Incidentally, too, net reserves of the Member Banks have increased—their reserve deposits minus their borrowings.

Thus I see no reason to expect any early credit strain, from the standpoint of either the cash position of the banks or their reserves.

Moreover, while interest rates are firming up, it remains true **that they are low, both absolutely and relatively to security yields.** There is not the slightest indication of credit strain in the money rate structure.

Again, one sees the renewed emphasis of production. Both the need and the importance of higher interest rates, are **the encouragement of savings and investment for productive purposes.** Banks are advocating that the government debt held by commercial banks should be refunded into long-term bonds bearing a 2¼% coupon. At the same time, individual savers and investors would be able to expect something like 4% on their money, because the money would be so **used as to earn that rate—in production.** It is no strain for **private** money to earn 4%.

Money rates do not seem likely to go high enough to indicate a major recession for a long while. With commercial loans expanding and consumer credit rising, indicating that the period of war saving is over, business is replacing government as the great borrower. This, however, does not suggest to my mind anything in the nature of deflation. We are merely **liquidating the government as an enterpriser.**

End of Planning Boom

What is the significance of this twofold movement in the use of bank credit? I think that it points to the most significant of all trends, namely, the end of the boom in government control or social planning, which will mark the beginning of a boom in business. Beginning with the New Deal, and increased by the war, we entered an economy based on government debt, and sustained by government spending. The credit of the sovereign was used for money, and social planning largely took the place of enterprise. This period is now passing.

One great trouble with the thinking of the past decade has been that the government has been regarded as the source of national income. Like John Law, John Keynes (and, at least in his earlier thought, M. S. Eccles) thought of income as the credit of the sovereign. The government was to use its fiat to borrow the individual out of debt. In 1929-33 the government undertook to take over the vast private debts that had been built up prior to 1929. In various ways, it prevented complete liquidation. The New Deal was then followed by the war. The result was the biggest, if not the best, public debt that the world has ever seen. **Now it is the government that is failing; not business.** It is the government's credit that is strained. Even the 1946 break in the stock market was probably in the last analysis the result of strain in the government bond market.

The 1947 Revival of Private Enterprise

Thus, we begin a period of revived private enterprise. In 1947, instead of Federal public works, there will be a large volume of private plant expansion. Instead of ever-growing issues of government bonds, there will be multiplying issues of corporate securities, to an increasing extent representing equities in plant and equipment, or venture capital. Individual spending will rise as government spending falls. The new period will be based upon the production of real goods, which means that to an increasing extent incomes will be earned by production, and will increase as production increases. Just to illustrate, Detroit will cease to be the center of military tank building activities, and again become the center of automobile production. In this connection, as the government retires its debt, the General Motors Corporation expands its equities.

As a matter of fact, we have been in a **business depression,** except possibly during the war, since 1933. It has been government and politics that have been booming. Now it is my judgment that, aside from a brief period of readjustment, it will be business that will boom. The depression of 1947 is likely to be a depression in government, and it is the employees of OPA who will be out of jobs.

The foregoing error regarding the creation of national income rests upon a misconception of "production." When an object is both desired, and held to be worthwhile, by free individuals, then it is a real product. It is characteristic of real production that it pays its way. Another characteristic is that it is not a fixed quantity: the more the real production, the more consumption there can be. The greater the real production, the larger the real income, and therefore the purchasing power. Broadly speaking, one product constitutes a demand for another.

Thus we need not fear any deflation arising from an allegedly fixed "national income." The national income in dollars may rise or fall. The real production and wealth of the nation are what count.

This error concerning the source of income is closely associated with the notion that it exists as an absolute—as a fixed total of purchasing power—a sort of "wages fund," so that if one share goes up, another must go down. This leads to the fourth and fifth concrete errors in forecasting.

Additional Forecasting Errors

(4) The fourth error affecting forecasts is that there is some mysterious difference between so-called durables and so-called on-durables — the much abused distinction between hard goods and soft goods.

(a) The fact is that we find many cases of greatest shortage in such so-called non-durables as men's wear, household linens, sugar, linseed oil, edible oils and shoes—to mention a few. On the other hand, among those goods which are most abundant in supply are aluminum and radios, both hard goods.

(b) The logic is that the producers of hard goods are the consumers of soft goods. There is no water-tight bulkhead between the two. They can and will expand together.

(c) The main element in forecasting for 1947, however, is **the capital-goods industry,** including the building. All the talk about durables and non-durables is a very Red, red herring drawn across the trail of investment and capital. It doesn't make so much difference what happens to hard or soft goods, as it does what happens to capital goods. It is most significant that practically all large companies are planning to expand plant and equipment next year.

Again, note that it is production that furnishes the basis both for demand and for consumption. The producers-goods industries are the greatest source of employment and income. The prospects for the producer-goods industries are good. In this connection, perhaps I should present my opinion that the reaction in building activity that has occurred recently but minor and temporary and that a resumption of the long upward swing in the building cycle is to be expected during 1947. Conditions that will contribute to this end or the approaching decontrol of the building industries, the more abundant supplies of the basic building materials, and the development of better bases for bank credit for building purposes.

(5) The fifth error is the notion that building up inventories is a dangerous, perhaps a fatal process.

The inventory "pipeline" is not a rigid tube. Within limits, it can and will expand to carry an expanding output of goods. The fact is that demand may increase as inventories increase. After all, inventories are capital and are required for production. And production is the basis of demand. It is a part of the true understanding of business to recognize that inventories are significant with relation to orders and shipments. Times may change, but such truths remain. Since when did it become bearish to build up adequate inventories? How can a pipeline flow at a maximum capacity until it is full?

In this connection, the viewers-with-alarm may well be reminded that a few years ago the excessive inventories were found in the hands of the government, including such goods as cotton. Now we find that the condition of demand has cared for even such apparently dangerous accumulation.

(6) The sixth and final error that stands in the way of a true forecast is the Federal Reserve Board's index of industrial production. This is one of the products of the inflation of the past few years.

In the first place, this index of industrial production **exaggerated production in the war period,** and led to notions that our "productive capacity" is excessive. The truth is that the so-called war production was largely not production at all. Certainly, the "activities" that contributed to it were not motivated in the normal peacetime way. Our productive capacity is not excessive.

In the second place, the index of industrial production almost universally in use **shows too high a level now, in comparison with pre-war periods,** and especially in the case of the so-called non-durable or soft goods. No allowance is made for long term trend, a very important matter. This trend is affected not only by the growth of population, but also by the rapid multiplication of families and babies, to say nothing of the remarkable rise in the standard of living. This index is seriously affected by a bad system of weighting the average and by distortions due to averaging relatives.

Business Hit Bottom in Early 1946

One of the positive results of understanding this condition, is that the forecaster may better realize, first, that we have had a business cycle with the peak back somewhere around the end of 1943, and a bottom somewhere early in 1946. Thus we are up but a little way in the expanding phase of the current business cycle. More correctly based measures of industrial production, suggest possibly about 18% above long time trend. Since the computations of long time trend are obsolete, a true index of industrial production would probably be less than 18% above normal. As already indicated, I would suppose the building cycle to be no more than half way up in its expanding phase.

Unchanged Basic Interest Rate Predicted by First Boston Corp.

(Continued from page 3213)

price inflation should attain virulent proportions (a contingency which is not envisioned) such endeavors to absorb individual and business funds are doomed to failure because of the mass psychology which would exist. For price inflation of a less virulent degree, it urges increases in actual and potential production as a more effective means of containing the price rise at a bearable level, and adds that the danger of attempting to increase non-bank holdings of Treasury securities in such circumstances is that of interfering with the necessary flow of savings to productive uses.

The larger part of the analysis deals with the requirements of varying levels of future business possibilities over the five-year period. For prosperous business conditions the gross national product is set at $213 billion with a national income of $178 billion. It is estimated that for business conditions in which unemployment ranged between 7½ million and 2½ million, residential construction would average from $7 billion to $10 billion annually; other construction and producers durable equipment would average from $14 billion to $17 billion annually; business inventories would increase further by $2½ billion to $3½ billion annually, and net exports should be sustained at about $3 billion per annum.

Annual Corporate Financing Needs Only $2 Billion

It is estimated that corporations would be able to finance their large capital requirements principally from their own savings, or retained earnings, and that their needs for outside financing would average only $2 billion per annum, or $10 billion for the five-year period. The report also estimates that consumers will spend a higher percentage of their disposable income than they did before the war.

On the basis of these estimates of capital formation and of consumer spending together with probable government expenditures, it is also pointed out that personal income tax rates throughout the coming five-year period need to be reduced by an average of 20%. Expenditures of the Federal Government are set at a range of $28½ billion to $30 billion. Under prosperous conditions it is envisioned that even with such a tax reduction, the Treasury would have a budgetary surplus of $3½ billion and a cash surplus of $5½ billion, which would be used principally to retire commercial bank holdings of Treasury securities.

The analysis states that the "private enterprise system provides the mechanism through which, despite the vagaries of human nature and the misjudgments of individuals, labor and business, savings and capital are able to flow into different lines of production. The environment in which this flow takes place should encourage the maximum shifting of funds from one line of production to another in order to absorb unemployment resulting from over-production in one field by creating new production in others. It is also an essential condition of continued prosperity under our free enterprise system that new products and new and improved techniques of production be continually developed in order to absorb in productive enterprise the high savings that result from prosperity. New products and new and improved techniques are encouraged by the prospect for profits. The proponents of a larger degree of government control in our economic life neglect this factor, which is responsible for our high standard of living and which could have occurred only under a free enterprise system. This system will continue to provide a rising standard of living as long as capital formation is necessary and profitable — in other words, as long as we retain our inventive genius and as long as it receives adequate compensation."

Tax Structure Must Be Reformed

The report emphasizes that the tax structure and burden must be conducive to the maintenance of a healthy economic climate. It further states that it is necessary for both labor and management to strive to increase production and consumption, particularly if labor is to be continuously employed within the capacity of business. It is also essential that investors be encouraged to provide the funds necessary for increasing the plant and equipment of old enterprises and for the establishment of new ones.

Marache, Sims & Co. Opens in Los Angeles

LOS ANGELES, CALIF. — Marache, Sims & Co. is being formed with offices at 210 West Seventh Street to engage in the securities business. Partners are Paul J. Marache and W. J. R. Sims. Mr. Marache was previously with Harbison & Gregory; prior thereto he was executive Vice-President of Fewel, Marache & Co. and headed by his own investment firm, Paul J. Marache & Co.

Competitive Pattern in Consumer Credit

(Continued from page 3216)

we do today, with the result that we financed from one dealer a number of high-priced trucks selling from $4,000 to $7,000 each, with down payments as low as $500. Our first casualty in the automobile field was this truck dealer, with whom we had approximately $150,000 in wholesale and $500,000 in retail. I recall that repossessions on the retail ran close to 70%. In spite of the fact that we had only advanced 80% on retail and 80% of the wholesale price, in the final liquidation of the account we sustained a loss of over $125,000. This loss would have been greater but for the fact that the army needed trucks and bought the entire stock. Otherwise we would have been forced to sell these trucks retail and our loss probably would have been as much as 50% of the money employed.

Rates at that time with the company I was with followed the pattern of the receivable finance business and we had the same rates on retail as on wholesale, namely, one-thirtieth of 1% per day on the total receivables, with an advance of 80%, or a net yield of 15%. With the experience we established on the passenger car business we began to encourage this type of business and developments during the next few years tended to stabilize this kind of financing and we started to learn what down payments and terms meant. Terms at that time were were limited to 12 months on new cars and 8 to 10 months on used cars. On new cars we endeavored to secure one-third down and on used cars we required 40% down. Rates during the early 20's were mainly whatever the finance companies wanted to charge. The construction of retail rates during this early period was based upon a percentage rate up to 10 or 15% plus a handling charge, plus insurance, all of this added to the unpaid balance.

During the early years we did not consider insurance a source from which we could derive profits, but considered it only a means of protection for the accounts. We required only fire and theft insurance.

In the late 20's the method of financing automobiles on a nonrecourse basis began to appear and the feeling among a number of finance companies was that it was impossible to operate on such a basis—that the procedure was unsound and a number of companies preferred to stay on a recourse basis.

During the later 20's the wholesale rates were three-quarters of 1% flat charge plus three-quarters of 1% per month on the outstanding. Non-recourse rates were several per cent higher than straight recourse rates. During the period from the late 30's on, with money rates going down and with the finance companies being able to acquire money in the capital market, there was a steady reduction in rates. Wholesale rates came down to one-half of 1% flat charge, plus ½% per month, and it was not until 1936 that retail rates on new cars were stated on a standard multiplier, when General Motors Acceptance Corporation announced their 6% plan. I recall the discussion at a finance convention in 1936 when this plan was announced and a number of companies felt that they just could not operate on the 6% plan and would probably have to go out of the automobile finance business. However, bank rates to finance companies continued to decline and the 6% plan became more or less standard and a fair rate for new car paper.

Out of this 6% it was customary for the finance companies to give anywhere from 1% to 2% to the dealer as a reserve, either for his repurchase agreement or as a bonus for obtaining the paper.

About that time a plan also was formulated whereby the finance companies gave recognition to late model cars, with the result that substantial rate reductions were made on cars up to two years old and the higher rates retained on older cars.

With continued reductions in wholesale rates, the standard rates on new car wholesale, prior to the Second World War, came down to $1 plus 4%, the $1 to cover the cost of insurance and handling charge and the 4% being the rate per annum for the number of days the car remained on the dealer's floor. This rate was later reduced, in 1945, to $1 plus 3% per annum. Also, in 1945, the standard 6% plan was reduced to a 5% plan by some companies, out of which dealers' reserves were paid in about the same proportions as they had been on the 6% plan, with the result that we now find an inadequate rate structure. The extension to dealers of large wholesale credits without the proper retail volume makes the wholesale rates unprofitable. The reductions were made largely to offset some of the prospective competition from banks.

Formerly it was customary to derive a substantial profit from the insurance written on retail transactions; such profits ran from 30 to 50% of the insurance premiums, depending upon the loss ratio. Over the last few years the insurance companies have been showing no profit, as loss ratios on automobile insurance are running as high as 135% of premium income. In some instances, finance companies are paying the insurance company premiums above what they receive from their finance business, in order to keep their insurance connections. They hope the loss ratios will improve.

It is well to consider the kind of job that has been done for the American public by the relationship that exists between automobile factories, automobile dealers and automobile finance companies, with each of the three groups competing for each other's business, or with each group as a whole competing with the other two groups to force an increase in the volume of automobile production through to the consuming public. The part the finance companies have played in this production and the assistance which they rendered to dealers is evidenced by the results of the past. To carry out this assistance, finance companies have always paid the automobile factories cash as the cars are shipped. In some cases the finance companies have advanced the full 100% of wholesale cost and sometimes the freight from the factory to the local showroom. At certain periods new cars have not moved freely enough to keep the factory wheels turning, the dealer has been forced to overstock, and the finance company is called upon to finance the excess, even though the dealer's normal credit facilities have been exhausted.

At times we have looked at our wholesale outstandings and wondered if a dealer would ever sell the stock he had on hand before the new model arrived. Then, to further help the dealer, we made advances on used cars so that he could handle his trade-ins, and at times used-car inventory became high and in final liquidation some losses would be sustained. In some cases, to keep a dealer in business, we have advanced more than the cars have been worth. In addition, when a dealer's working capital is not sufficient to operate his business, we make what are called capital loans, which sometimes were unsecured. To improve the dealer's service department we have made advances on his equipment and accessories. All such loans are customarily made at bank interest rates.

It is well to consider the service rendered by a finance company to a dealer other than financial assistance. We realize that the last trade-in on a new car, which may be the second, third or fourth trade-in, has to be financed if the dealer is going to make a profit. We therefore have to be in a position to purchase all the paper offered by a dealer, namely mine-run paper, which means that we have to take the good with the bad, as well as border-line credits. Sometimes we must extend these credits in a matter of minutes, as the sale is very important to the dealer and delay might cost him his prospect.

We also direct to the dealer repair work in the event of a collision accident, to be given to his service department. In some years the profits from this department made it possible for the dealer to break even. The service rendered by finance companies has been pointed out to show the vital part they play in a dealer's operations.

In examining the competitive pattern in the finance business it is well to look at the operations of the finance companies during the seven-year period from Jan. 31, 1935 to Dec. 31, 1941. These figures have been compiled by the First National Bank of Chicago and cover principally their own customers whose combined capital, including debentures, was in excess of $500,000,000 and who did a volume of business of $2,700,000,000 in 1935, which steadily increased, except for 1938, to $4,500,000,000 in 1941, with outstanding receivables at the end of 1935 of approximately $900,000,000 which increased to $1,780,000,000 at the end of 1941. During the seven-year period the gross income on volume of receivables purchased was approximately 6%. The profit ratio to volume averaged approximately 1½%. Profit ratio to volume for 1941, the largest year in the automobile finance business was 1.11%. Operating expenses during the period were approximately 4.6% of volume, with operating expenses in 1941 4.2%. Losses to volume averaged about 9/10ths of 1% for the seven-year period, losses for 1941 being 68/100ths of 1%. Converting these profits on volume to capital employed, the earnings for the seven years are as follows:

1935	16.22
1936	15.54
1937	15.02
1938	9.51
1939	9.44
1940	10.54
1941	11.03

These profits, in comparison with other financial institutions, manufacturing companies and small loan companies are not excessive. A study of these figures will indicate that finance companies cannot materially reduce their rates below the 1941 rate schedules. Operations of finance companies for the year ending Dec. 31, 1946 will not compare favorably with the averages for the seven years prior to the war. It seems clear that if the finance companies are going to do the job of postwar financing, comparable to what they did prior to the war, there will have to be increases both in wholesale and retail rates. This condition has already been recognized by the finance companies.

It is the only industry I know of that has had increased wages, rents and all operating expenses, plus a slight increase in the cost of money, which has reduced its rates to the dealers and consuming public.

The American Bankers Association found in a recent survey that nearly 95% of the banks in the country plan to engage in some form of consumer financing after the war. How this bank competition is going to effect finance companies remains to be seen. None of these remarks apply to those banks who plan to render a full and complete service to dealers, nor to those banks who intend to serve depositors' credit needs through a personal loan department. Finance companies welcome such banks to the consumer credit fraternity. The competition the finance companies regard seriously is the direct to-the-automobile-buyer or the bank insurance agency plan.

The National Automobile Dealers Association likewise feels that this may be a threat to the existing relations between finance companies and dealers. Their postwar planning committee, in its recent report, stated that the problem of bank competition surmounted in importance any matter yet presented, that it merited the dealer's closest attention and gravest consideration. Further, they stated that it was vital to the interest of the dealers of the nation and that its importance could not be measured in words. This committee recommended a seven point program to the Association, designed to keep control of financing needs, as follows:

1. Remind the dealer that many of them have contributed to the probable loss of this business to the bank by exacting reserves which sometimes reach usurious proportions by a padding process. This practice is not countenanced by all finance companies, but has been sufficiently widespread to have created a completely unsettled situation.

2. Educate dealers in the economic value of the retail function they perform by selling financing with necessary insurance to the buyer.

3. Educate dealers in the importance to them of retaining the profit they realize, through the dealers' reserve, from the retailing of financing service.

4. Educate the consumer, through the dealer, in the desirability of securing his financing service from the same dealer who sells him a car, accessories, parts, repairs and maintenance service.

5. Make clear to consumers that when they finance through a bank they are taking away business from their favored dealer, just as much as when they buy parts and even cars from some other dealer. It will be well to remind the buyer that should he borrow from the bank, he creates an obligation with that bank that will affect his further borrowing power capacity.

6. Show the customers that, when they finance through a local bank they are getting less service than when they use the long established dealer finance company arrangement.

7. Remind the dealer that it is the usual practice of the insurance company who carries the risk through his regular channel of financing, to bring to that dealer for repair, any car damaged by collision. If the placing of insurance passes from the dealer's control, then the automobiles he has sold likewise pass out of his control when repairs are needed.

Considering this type of competition we feel that if it is developed to any great extent, it will affect the dealers' operations seriously, because if there is any large amount of retail paper taken direct by the banks, the greater part of it would be the most desirable portion of the retail paper, and as the volume of retail declines in proportion to wholesale financing, the finance companies would have to adjust their rates either in the direction of larger wholesale rates or larger retail rates, or the dealers' business would not be attractive.

As nearly as I can ascertain, 60% of the new automobile paper was handled by the finance companies in 1929 and this has progressively declined until it represented about 38% in 1941. At the present time new car retail developing from new car wholesale has been running below 10%. There are many factors that must be considered in determining why this percentage is so low. One reason is that a number of cars were sold for cash and wound up in the black market or in the lots of used car dealers. Also, a large number of the new cars have been going to fleet buyers, who do not finance them. With the elimination of OPA this percentage will probably be increased.

The first turn our company has had in any improvement was during the month of October, when the number of retail transactions amounted to 21½% of the wholesale transactions, which was a big improvement over previous months.

We also have a unique problem in our business. Capital of all finance companies is inadequate to finance automobile production of five or six million cars, because if the finance companies do the same unit volume in 1947 or 1948 that they did in 1941, their volume will be increased over 100%, as the average unpaid balance has increased by that amount, due to the increase in retail prices. This would mean that the amount of outstanding receivables would be increased from the 1941 figure of $1,800,000,000 to $3,600,000,000. With net worth of approximately $500,000,000 the debt of the finance companies will reach a maximum of $4,000,000,000 or 8 times present net worth. The banks have liberalized their credit policy regarding borrowing ratios to 4 to 5 times net worth. This would mean that the total borrowing capacity on a 5 to 1 basis would be about 2½ billion dollars, so the present capital and bank credit of the finance industry would be short 1½ billion dollars, and to meet this condition capital accounts would have to be increased substantially.

When we consider the present competitive terms and the present lack of profits, with the possible volume of business the finance companies and banks will have to finance, we come to the conclusion that the present rate structure will not last, that there is bound to be an improvement in rates, both wholesale and retail, and even though the banks may cut in, to some extent, we believe that over the next few years the finance companies are going to have an opportunity to finance such a large volume of business that these competitive conditions of today will soon be corrected, as automobile production increases. The real problem of finance companies is to raise the necessary capital and obtain the necessary credit facilities to finance this large volume of business.

Standard Stock Exch. Now Spokane Stock Ex.

SPOKANE, WASH.—The Standard Stock Exchange, largest mining exchange in the United States, has changed its name to the Spokane Stock Exchange, according to an announcement by Paul Sandberg, President of the Exchange. Mr. Sandberg stated that the name was changed since most exchanges are named after the cities in which they are located.

Consumer-Spendable Income, Spending, Saving, Credit

(Continued from page 3214)

ble income an amount calculated to cover the cost of absolute necessities. How much this deduction shall be is more or less arbitrary, but something like $250 per capita, or possibly $1,000 per family and $500 for each independent person, in dollars of 1935-39 purchasing power, appears to be about right to cover food, clothing, fuel and shelter at the minimum level. This amount, increased or decreased year by year to correspond with changes in the index of the cost of living, represents the volume of purchases concerning which consumers have practically no choice. What is left of disposable income is what the sellers of comforts, luxuries, and durable goods have to compete for. Savings also come out of this residuum, which some economists call "supernumerary income." In correlating sales of automobiles with national income over a series of years, we have found that supernumerary income usually gives better results than disposable income, and both are better than total income.

"Supernumerary Income"

Supernumerary income may not be increased by inflation, even if disposable income and net national income and income payments are considerably increased. We have avoided a serious inflation in the war, and supernumerary income increased faster than the cost of living. From 1941 to 1946 disposable income increased 63%, the cost of living increased 37%, and supernumerary income increased 81%. Hence the unprecedented savings that are reported. Hence also the unprecedented volume of retail sales and the willingness of the public to buy any kind of trash.

But although supernumerary income rose from 1941 to 1946 it may decline fairly sharply next year even if income payments and disposable income decline only moderately. For example if disposable income fell 10%, from $145 billion to $130.5 billion, supernumerary income might fall 16%, if the prices of necessities remained unchanged. Or to put it differently, if disposable income fell 10%, supernumerary income would fall more than 10% unless the prices of necessities fell more than 10%, which I doubt will happen.

National income, measured in money, is derived either from production or from inflation. If derived from inflation it may not result in higher supernumerary income, and if it does so, that result will probably be temporary. But for the market analyst a more serious objection to the inflationary method of increasing the nationl income is the effect it has in altering the normal pattern of income distribution and changing the buying habits of large classes of consumers. Income from production goes to producers and investors usually in proportions that do not differ much from year to year. Income from inflation goes to government employees and contractors, to holders of inventories and speculators, in amounts that are almost wholly unpredictable.

Spending Habits of Producers And Investors

The spending habits of producers and investors do not change rapidly. The spending habits of contractors and speculators vary greatly between prosperous times and bad times and are hard to predict. In general income derived from inflation is quickly spent, and to a large extent on expensive luxuries. Those who do not share in it cannot reduce their consumption of absolute necessities but they can purchase fewer comforts, and extend the lives of their durable goods—clothing, household equipment and automobiles, and skimp on repairs—paint, hardware, furniture, carpets, etc. Which means that a large national income derived from production increases the demand for middle-class comforts, whereas a large income derived from inflation increases the demand for expensive luxuries. Therefore the amount of national income is no more important than its nature or source, because the nature or source of it determines what kinds of buyers get it to spend, and the atmosphere in which they do their spending.

None of the statistical studies of spending and saving habits has made this distinction, and it is one that could not be made by ordinary sampling methods. They have classified individuals according to their incomes in a given year. Users of this material have made their own calculations of the distribution of income in later years, and have usually assumed that persons moving to a different income class would conform to the habits of that class. Some analysts have recognized that an adjustment of this sort takes time. Most analysts have recognized that an allowance must be made for changes in the purchasing power of the dollar as measured by the cost of living. But not all prices change by the same amount, and that makes it necessary to consider each category of goods separately. And in the analysis one must consider price elasticity as well as income elasticity. Finally the tastes of consumers change, for reasons other than changes in income.

This is illustrated by the two great governmental studies of 1935-36 and 1941-42. Confining our attention to families with incomes between $1,000 and $10,000, since the samples were unreliable below and above that range, we find considerable differences in the proportion buying automobiles, whether new or used, and the proportions owning automobiles that were new when bought. Adjustment for the rising cost of living makes little difference, since there was only about a 5% rise. Adjustment for higher direct taxes helps considerably, and also adjustment for the higher price of automobiles. But still we find fewer buyers in 1941 than the 1935-36 income study would have led us to expect. The chief reason for smaller sales of new cars seems to be that before 1935 there had been five years of low sales and there was a vacuum to be filled. 1935 followed three years in which average sales had been only 1,510,000; 1941 followed three years in which average sales had been 2,700,000.

Since consumer credit is listed among the subjects to be discussed at this meeting I must point out that consumer credit is an important addition to supernumerary income, but that its use at inappropriate times or in excessive amounts involves danger. We have found that if the terms of credit are arranged so that the buyer always has an equity, i.e. the resale value of the automobile is always higher than the unpaid balance, both the seller and the buyer are protected. This means a down payment of a third or more, because new automobiles lose value rapidly in the first year, but it does not necessarily mean a strict limitation of the period of payment. At present the term of the loan is limited to fifteen months by Regulation W. Our own loans average less than that, and have not often gone beyond—not because of any policy concerning a fixed maximum time, but only because of the controlling principle that the buyer must always have an equity. At the present time the proportion of autos sold on time is considerably smaller than normal—perhaps only one in five, as against a normal proportion of more than one-half. We could doubtless have sold all the cars we have been able to make this year without extending any consumer credit whatever. The number of well-to-do buyers has exceeded the production of cars, and the use of consumer credit falls off rapidly as one goes up the income scale. Also there has been some use made of savings acumulated during the period of universal shortages. But there will come a time when consumer credit will again be necessary to enable persons in the lower income brackets to purchase cars. When that time comes I have no doubt that Regulation W will be relaxed, if it has not previously been abolished.

And finally, just a word on savings. Some government and other Keynesian economists fear that the nation may suffer from excessive saving. I take the opposite view. In my opinion no nation has ever suffered from excessive private saving, and Russia is the only one that has suffered from excessive governmental saving. After a great war, involving immeasurable loss of capital, a high rate of saving is needed to finance reconstruction, for it must be financed somehow, and the only alternative to saving is inflation. But an adequate discussion of this point would take a week, so I conclude with this bald statement.

Distribution to Sustain Expanded Production

(Continued from page 3215)

the interest of particular companies as it must in the competitive struggle for survival; second, to advance the interests of all business so that the total volume of goods and services purchased will be increased. Selling, advertising and sales promotion are necessarily directed towards increasing the sales volume of a specific brand or of a particular product. Moreover, it is by these methods of aggressively merchandising individual products and brands that distribution has succeeded, over the long run, in selling a higher standard of living to the American people, and thereby influencing the level of employment.

However, there remains an area in which the most progressive promotional activities will prove of questionable purpose unless the more basic problem is first faced and resolved. This area is that of potential consumers who are forced to remain potential consumers because of the meagerness of their income. A third of a nation is something more than a political cliche. It is an economic reality, and a distressing one. Until we, the leaders of American industry find an effective means of increasing the income of these people they have no effective choice but that of spending their limited incomes on the basic necessities of life. Here the task is not one of inducing them to consume more but rather of increasing their productivity so their incomes will expand and they can buy more.

In short, whatever increases the efficiency and productivity of this one-third of the nation, whatever increases the money income they earn, whatever stretches the buying power of the money they earn, whether it is through lower taxes or lower prices, will tend to increase their total consumption and thus will enlarge the flow of real national income and employment.

I have known a good many businessmen who worked hard at reducing their costs, but then failed to translate those savings into improved plants and equipment, or to increasing consumer consumption by passing along the cost reductions in the form of "price" reductions.

I want to again warn such businessmen that this practice discourages buying and consequently restricts production and employment, and with it sales and distribution.

Every businessman should constantly and energetically strive to reduce his cost factors and then pass on these reductions to the consumer in lower prices or improved products, or in the improvements he can make toward greater efficiency in his plant or equipment. Lower the cost of the product or improve it, or preferably both, and you increase its distribution! This is the dynamo of the free enterprise system; and every alert and progressive businessman never loses sight of it.

The Cost of Distribution

Now I have also heard businessmen say that the high cost of distribution is what makes their prices high. Much publicity, for example, has been given to the statement that 59 cents of the consumer's dollar goes for distribution while only 41 cents goes for production. These same businessmen, for the most part manufacturers, therefore say that if the efficiency of distribution could be improved, with a consequent decline in distribution costs, they could lower their prices and the flow of consumer goods would increase and the result would be more production and more employment.

They are right! There can be no question but that technological and other advances in distribution, resulting as they should and must in increased efficiency and lowered distribution costs, are to be desired from every standpoint. Progress lies in this direction.

However, the *cost* of distribution cannot and should not be looked upon as an end in itself. It is a necessary means to an end, and as such can and, in most cases, does vitally affect *all* costs. Frequently more money wisely spent on distribution and its component factors is in the end money very well spent and contributes directly to lower prices to the consumer—a desired result. Greater efficiency in distribution, as anywhere else in our economy, would make it possible for most of our people to achieve a generally higher standard of living. Anything that lowers cost to the ultimate consumer, or that makes his money go farther, raises his real income. Conversely, inefficiency in distribution, as in other factors in our economy, is costly to society in terms of a loss of potential real income.

In hammering home the idea that we must do everything possible to raise the level of real income for the masses of our people, I want to say a word about taxes.

The war has put a terrific financial burden upon the government. The government is the people. Thus, the burden of the war has fallen directly upon the shoulders of the people. This is as it must be. This is the cost of preserving our freedom. But this is not the cost that we must feel obligated to pay through the nose for the rest of our lives and those of our posterity. There are all kinds of present expenses which government can cut, and must cut; there are all kinds of expenditures where savings can be effectively made, and must be made; there are all kinds of costs that can and should be reduced, and must be reduced.

These reductions must be made so that taxes can be cut accordingly, especially taxes in the lower income brackets, for it is within this group that our greatest opportunity for expanded production, sales and distribution lies. Taxes must also be cut for business, so that businessmen may have the wherewithal to constantly improve their products, their plants and equipment so that unit prices can be reduced to the consumer. Taxes which impede the flow of funds into risk enterprises and which stifle proper incentive must be removed. Again I repeat, that anything we do to extend or raise the level of real income of the people will be done for our greater prosperity and full employment. This is the government's responsibility toward continuing employment for its people.

Trade Barriers Must Be Abolished

Now, one final conviction I have about distribution is that the trade barriers which plug the lines of distribution must energetically be disposed of once and for all.

Today there are innumerable State, city and industry-imposed barriers that are insidiously taking their toll of the consumer's dollar, making it difficult for the ordinary businessman to survive, increasing distribution costs, and placing unnecessary obstacles in the way of veterans and others who want to establish businesses of their own.

Behind almost every trade-barrier law, or regulation, is a mixture of motives. But the small businessman and the consumer must pay a heavy price for each barrier. When you add to the price a purchaser normally would pay for a product, without compensating him in extra value for the increase, you automatically shrink the size of your market and your possibilities for continued growth and expansion.

Trade barriers are fundamentally restrictive. They are injurious to business and they adversely affect the wholesomeness of the national economy.

The time has come for Congress to examine the whole question of trade barriers, and to take remedial action. As our elected representatives they are the proper body in government to make such determinations as are necessary for the national welfare. But the time has also come for businessmen to take a hand in destroying those industry-imposed barriers that are blocking the road to reduced costs.

Trade barriers are an economic evil. They have a cumulative effect on our entire economy. Common sense should tell us that we can only prosper when trade is permitted to flourish to its fullest and when prices are low enough to permit as many people as possible to purchase as much as possible. Trade barriers are distribution barriers, and you businessmen who are primarily distributors should make the destruction of such barriers your immediate concern.

As I have said so many times in the past, progress, above all else, is the American way of life. We are always concerning ourselves with those problems which seem to impede our way toward a higher standard of living, toward prosperity and continuous employment for our people. It is this enterprise on our own behalf that has made us a great nation. Thus the work and effort we put forth on the problems facing distribution is energy spent for the good of all of us.

The difficulties and struggles of today are but the price we pay for the accomplishments and victories of tomorrow. The distributors of this country have given us an exciting and satisfying past. It is to their great and everlasting credit that they will continue to give us an exciting and satisfying future.

Questions of Foreign Economic Policy

(Continued from page 3215)

trade by means of tariff agreements under the Reciprocal Trade Agreements Act and through its proposals for an International Trade Organization.[1] It seeks to promote multilateral trade, and to remove trade discrimination and restrictive business practices through the International Monetary Fund, and the proposed International Trade Organization. The United States has also argued for the inclusion of non-discrimination clauses in the peace treaties with the defeated nations. In order to restore world trade and production as rapidly as possible and to raise the income of less developed areas the United States has made large governmental loans to foreign countries and has sponsored the international agreements which led to the establishment of the World Bank and the World Fund.

In addition to the sponsorship of international agreements and the making of direct loans to foreign governments for the promotion of multilateral trade the United States has on occasion made representations to governments entering into long-term bilateral arrangements involving a large volume of trade.[2] The U. S. Government has also sought to curb the activities of foreign purchasing missions by requesting them to limit their purchases to commodities required for relief and rehabilitation, to make purchases in accordance with commercial considerations and through normal trade channels, and to liquidate their operations as soon as possible.[3]

In certain cases stated international objectives may come into conflict with special national interests and policies, or the international objectives may be found to be in certain respects inconsistent within themselves. For example, certain aspects of America's agricultural program are in conflict with our general international objective of eliminating import quotas and export subsidies. The United States has from time to time imposed import quotas on certain agricultural commodities. In 1938 we inaugurated a program of subsidizing exports of wheat and wheat flour followed by the subsidizing of cotton exports in 1939.[4] It is significant to note in this connection that the U. S. "Suggested Charter for an International Trade Organization" provides for loopholes to the general rules against import quotas and export subsidies.[5] These exceptions to the general rules would enable the United States to employ import quotas and export subsidies whenever necessary to support our domestic agricultural price and production programs. It is difficult to see how we can secure the maximum advantages to be gained from interregional specialization if nations resort to these exceptions to a substantial degree. Of course, if nations pursue an uneconomic domestic policy of maintaining prices above their normal competitive levels and discourage the transfer of resources and labor from less productive uses, an appropriate foreign trade program will have to be employed in order to insure the effectiveness of the domestic program.

Conflicts of Objectives

The international objectives of maintaining world economic stability and of promoting the maximum freedom in international commerce in order to secure the greatest possible advantages from interregional specialization may also come into conflict. A good example of this conflict may be seen in the recent discussions regarding the Orr plan for a world pool of farm commodities for the purpose of stabilizing world prices. Critics of this proposal put forward by the United Nations Food and Agricultural Organization have rightly pointed out that under such a plan prices would always be high enough to cover the costs of the least efficient producer, thereby preventing the more efficient producers from capturing a larger share of the world market. Marketing quotas, if established, would be based on the relative shares of the market held during an earlier period and the pattern of production and trade in the controlled commodities would be frozen. Such a system, whether under the control of a private cartel or an intergovernmental committee, tends to stifle economic progress and reduce the gains from trade.

Let us turn now to the question of how certain of the broader U. S. foreign economic objectives may conflict with those of other nations. In considering the five objectives stated above no nation would quarrel with the objectives of achieving a large volume of world trade and high levels of income and employment, although there may be substantial differences of opinion as to how these objectives should be attained. The objectives which present the greatest difficulty are those which relate to multilateralism and non-discrimination in trade, and the objective of promoting free enterprise in international commerce. The doubts raised with respect to multilateralism and non-discrimination are based on the fear that domestic economies will suffer if they are not protected from rapid shifts in external demand. The conflict over the objective of leaving foreign trade to private enterprise stems from basic differences in economic and political organizations and philosophies.

Although the volume of world trade is partly a function of the commercial policies of trading countries, the most important single determinant is undoubtedly the level of income and employment in the major industrial nations. In a multilateral world, countries which are successful in maintaining high levels of domestic income and employment will inevitably experience balance-of-payments difficulties when there are sharp decreases in incomes and business activity in other countries. It is not surprising therefore that a major issue of the World Trade and Employment Conference in London has been the responsibility of nations, particularly important creditor nations such as the United States and Canada, for preventing serious depressions within their borders. I think that this international responsibility has been definitely established. However, there is no way by which the present Administration in the United States can guarantee that we will live up to this international obligation. The best that can be done is to relieve other nations of their obligations with respect to trade and exchange practices when they are experiencing balance-of-payments difficulties arising from depressions abroad. Adequate safeguards for nations experiencing balance of payments difficulties are provided for in both the International Monetary Fund Agreement and the Suggested Charter for an International Trade Organization.[6] In addition nations experiencing temporary deficits in their current balance may obtain credits from the International Monetary Fund.[7]

It is recognized, of course, that permitting countries which avoid economic depressions to impose exchange and trade discriminations against a country which is having a depression does not provide complete protection.[8] Countries whose economies are geared to a particular level of imports and exports are bound to suffer from a sharp decrease in their trade. It takes time to develop new sources of imports and new markets in exports. Nevertheless the alternatives of bilateralism and of confining trade within small groups of nations have never been shown to be adequate to meet the needs of modern industrial economies. The sterling area, for example, cannot provide a substitute for Britain's trade with the Western Hemisphere except at a tremendous loss in real income. Just as a modern economy involves greater risks for the individual than a handicraft society in which production is for a local market, so a multilateral world economy is inherently less stable than one in which trade is conducted on a barter basis. But the rewards in terms of productivity are large in both cases. Moreover the day when all governments must assume the responsibility to their own people of maintaining reasonably high levels of employment and income cannot be very far off if democratic capitalism is to survive.

Private vs. State Trading

The conflict between the objective of keeping international trade in private hands and the objectives of the state trading countries is in some ways more difficult to resolve. The U. S. Government has never taken a direct stand against state trading *per se*, but it has frowned on many practices which may be inevitable under a system of state trading. The I.T.O. Charter seeks to bring the practices of state trading enterprises into conformity with the general principles of non-discrimination and trade on the basis of purely commercial considerations such as price and quality.[9] In other words, state trading monopolies, whether they deal in a limited number of commodities or, as in the case of Russia, have a complete monopoly of all foreign trade, are supposed to behave like any private trader, buying wherever he can obtain what he wants at the lowest possible price and selling to the highest bidder regardless of any political or economic considerations beyond the purely pecuniary ones involved in each purchase or sale. Admittedly this is expecting a great deal from a state-controlled enterprise.

Ideally of course it is possible to have a multilateral trading system in which each transaction would be determined in accordance with the principles of relative competitive advantage in a world of state trading monoplies. Such a system would require the avoidance of bilateral deals and trade discrimination and a rigid adherence to the principle of purchase and sale on the basis of purely commercial considerations. There would also have to be some assurance that the prices of exported commodities bore a close relation to their costs as reflected in the relative scarcities of the factors employed in producing them. In addition, the decisions regarding what and how much to import would have to be made on the basis of the relative costs of home production and procurement abroad. Since these requirements are likely to conflict with the domestic price and production policies of state trading countries, the ideal conditions for a multilateral state trading system are not likely to be realized.

As a matter of practice the existence of state trading monopolies is likely to do violence to the principles of multilateral trade and non-discrimination in several ways. In the first place national state trading enterprises, whether they be buying or selling organizations, are generally controlled by a single governmental department or their activities otherwise coordinated. Inevitably they will tend to make bilateral deals in trading with other state trading nations or even in trading with countries where trade is in private hands. Many nations will inevitably be pressed into bilateral deals with state trading nations in order to protect their trade. Moreover political considerations can scarcely be eliminated from their decisions regardless of international commitments to the contrary. Finally, the existence of the power to determine what and how much to import or export in the hands of a single trading organization may be in conflict with the principle of the free flow of commerce on the basis of relative competitive advantage.

It would, of course, be futile to attempt to outlaw state trading among the nations of the world. No country can be asked to give its foreign traders more freedom than is accorded to those dealing in similar commodities produced and sold in its domestic markets. If, for example, a government maintains a monopoly over the sale and distribution of domestically produced tobacco products, it is not to be expected that importers and exporters will be permitted to buy and sell these commodities without restriction. The course taken by the I.T.O. Charter is probably the best compromise that can be achieved between the interests of nations moving in the direction of economic nationalism and those which adhere to the principles of unregimented private enterprise in international commerce. As a minimum the I.T.O. Charter will provide a mechanism for consultation regarding the practices of state trading nations and may be instrumental in preventing some nations from being forced into nationalizing their foreign trade against their will.[10]

I. T. O. Provisions a Compromise

So far as the violence which is done to the principles of multilateralism and non-discrimination in international commerce is concerned, it makes little difference whether trade is controlled by state enterprises or by privately controlled international cartels. International agreements by private or governmental enterprises to fix prices, establish marketing quotas, or to otherwise restrict production or sale in international commerce are rightly outlawed by the I.T.O. Charter.[11] Where international commodity agreements for the purpose of stabilizing prices are considered to be desirable in the interest of world economic stability, provision is made in the I.T.O. Charter for the development of such agreements under the supervision of the Organization.[12] Such arrangements are not without danger, however, and if permitted to freeze production and trade in uneconomical channels they will conflict with the broad trade objectives of the Charter. Nevertheless the international commodity agreements contemplated under the Charter will be far better than we are likely to get in the absence of international supervision. Like all other international agreements which have a chance of success, the I.T.O. Charter represents a compromise between the various conflicting national interests and international objectives which must be resolved if society as we know it is to survive.

---

1 See "Suggested Charter for an International Trade Organization of the United Nations." Department of State, September, 1944.

2 See "Swedish-Soviet Trade Negotiations. Exchange of Notes between the U. S. and Swedish Governments" *State Dept. Bulletin*, Sept. 15, 1946.

3 See Claire Wilcox, "Fundamentals of U. S. Trade Policy," *State Dept. Bulletin*, Washington. D. C., Oct. 6, 1946.

4 Under the Surplus Property Act of 1944 the Commodity Credit Corporation may sell surplus farm commodities for export at competitive world prices, even though domestic prices are higher. See M. S. Gordon, "International Aspects of America's Agricultural Policy," *American Economic Review*, September, 1946, pp. 596-612, for a discussion of this question.

5 See Articles 20 and 25 of the *Charter*.

6 The International Monetary Fund provides that in the event the Fund declares a currency to be scarce the members may impose restrictions on the purchase and sale of that currency (Article VII, Section 3, *Articles of Agreement, The International Monetary Fund*. Parallel provisions are included in the I. T. O. Charter with respect to discriminatory quantitative trade restrictions. (Article 22, *Suggested Charter for an International Trade Organization*.)

7 For a discussion of the safeguards for deficit countries see my "United States International Financial Policy" *Canadian Journal of Economics and Political Science*, August, 1946, pp. 313-321.

8 See M. Kalecki, "Multilateralism and Full Employment" *Canadian Journal of Economics and Political Science*, August, 1946, pp. 322-327.

9 See Articles 26, 27 and 28 of the *Suggested Charter*.

10 Article 30 of the *Suggested Charter* provides for representation to the Organization by any member with respect to the trade practices. including state trading practices, of any other member which are believed to be in conflict with the obligations of the Charter. If the offending member fails to abide by the recommendations of the Organization, that member may be suspended.

11 See Articles 34, 35, 36 and 37 of the *Suggested Charter*.

12 See Articles 41-49 of the *Suggested Charter*.

New York Stock Exch. Appoints Gray & Klem

Emil Schram, President of the New York Stock Exchange, announced the appointments, with the approval of the Board of Governors, of Edward C. Gray as

Edward C. Gray   Charles Klem

First Vice President and Charles Klem as Vice President and Treasurer.

Mr. Gray has been Vice President. He is in charge of the Department of Member Firms. Mr. Klem has been Assistant Vice President and Treasurer.

Mr. Gray was first employed by the Exchange in 1918 after having been graduated from New York University. He is 44 years old. Prior to the reorganization of the Exchange, in 1938, he was for three years secretary to the former Committee on Business Conduct. From that position he advanced, in 1940, to the position of Director of the Department of Member Firms, becoming Assistant Vice President in 1943 and Vice President in 1945.

Mr. Klem came to the Exchange as a floor page in 1922, advancing to the position of Assistant Director of the Department of Public Relations in 1932 and to the Assistant Secretaryship of the Exchange in 1938. Early in 1941 Mr. Schram detached him from his duties in the Secretary's office to work as a member of the President's staff on financial and budgetary problems. He became Assistant Vice President in 1943 and Treasurer the following year.

Tucker Anthony Admits

Tucker, Anthony & Co., 120 Broadway, New York City, members of the New York Stock Exchange, will admit Cecil F. Gordon to partnership on Dec. 31. George S. West, limited partner, will retire from the firm on Dec. 31.

Surveying the Post-Election Scene

(Continued from page 3206)

only encouraging, but surprising considering past attitudes on the part of other agencies. I am happy to say the change so far as the SEC is concerned, came before election.

Government regulation of our business is here to stay and those who think differently are a very small fringe. I am convinced that in time the securities industry itself will be given credit for the good job it has done in self-regulation and that, as it continues to do a good job, the regulatory agencies will relinguish more controls as they find them no longer necessary.

I cannot refrain from another comment on government attitudes. There is one government agency that has yet to see the light, and I speak of the Federal Reserve Board which, by fiat, has destroyed the loan value of listed securities, among which are to be found some of the soundest investments in the world and held by millions of people. The Board, in my opinion, ignored the intent of Congress by its action.

There are only a few, I am sure, in the power and light utility industry who would like to repeal the laws affecting that industry. Significantly, almost no investors, or even speculators, in public utility securities, would like to see these laws repealed.

The reforms, represented by our securities laws, although hard fought, are here to stay. So are many other good things which the "left of center" government brought us during its 14 years of power.

Yes, much of the legislation was good, and need I mention my old love, the RFC, in which your own Jesse Jones did such a magnificent job. I was most pleased recently to see that agency stand its ground when efforts were being made to force it to make what it considered unsound housing loans. I could see signs of the early training of the old master in that controversy.

Break in Cotton

I know that you in the South were recently seriously effected by a break in the cotton market. Being close to that picture because of the large volume of cotton bsuiness that our member firms handle, I can see the need of further self-regulation in our commodity exchanges. I refer to self-regulation that will strengthen the stability of the markets, not weaken them, and this I am delighted to see, is apparently being undertaken by the exchanges themselves, voluntarily. They should be permitted to do so. We learned long ago that self-regulation is best, but it must be thorough and effective. Our own failure some years ago to introduce stringent self-regulation brought us a trip to the woodshed that will not be forgotten and which, incidentally, matured us quite rapidly.

I want to preach a bit about economic morality as it centers around the law of supply and demand. When you push any commodity, or any security, or any manufactured product, to an artificially high price by trying to repeal or ignore the natural law of supply and demand, you unwittingly invite subsequent grief. Fortuitous circumstances, such as unexpectedly poor crops or a war, may come to the rescue for awhile; but eventually there will be no fortuitous circumstances and a house made of cards will fall to of its own weight.

For nearly a score of years, in one way or another, we have been trying to make the law of supply and demand operate at something over 100% efficiency in creating higher and higher prices for every staple crop the American farmer has to sell. We have succeeded in getting prices up but we should never forget how favorable the political and economic climate has been.

The Price Parity Law

The price support laws, in most cases, guarantee for two full years after Jan. 1 following the official declaration of the end of the war that the objective of government policy shall be to maintain farm products at not less than 90% of parity. Now, parity is determined by what the farmer has to pay for the things he buys. The things the farmer buys, in turn are priced to a considerable extent by the cost of the labor that goes into making them. If, therefore, wages increase, parities must go up with them. There is always the possibility that higher industrial wages may result in such high farm parities as to price American farm products, including American cotton, out of the world markets. Don't forget that, in spite of regimentation abroad, the law of supply and demand still governs the world markets.

Just because the government's efforts to support farm prices thus far have been successful, it is dangerous to conclude that these devices always will operate so effectively in favor of the farmer. Thus far, everything in the world environment has been favorable to success. In other words, the law of supply and demand has been operating in favor of higher prices, and working along hand in hand with the statute laws enacted by the Congress.

In regimenting prices for the benefit of the farmer, we have done just about the way governments always do when they try to improve on the law of supply and demand. We have gotten in deeper and deeper, regulated more and more, regimented more and more, built more and more complicated bureaucratic institutions. In short, one thing has led to another until the public has become fed up. It has had enough.

You may not like this, or you may like it, according to where you sit and according to your individual opinions, but the recent sharp "turn to the right" in American political and economic thinking puts the whole system of regimenting prices for the purposes of the farmer on the defensive, just as it has put labor union favoritism on the defensive.

I think all of us will be better off if we have a free market in farm products and farm staples. In the case of cotton, now that we have a short crop and the whole world is in need of everything from which cotton is made, this may be a very good time to begin to switch back from a regimented market to a market governed solely by the law of supply and demand.

Too many people think they have a monopoly in cotton, or in wheat, or in copper. They formerly did have the control of the markets for all of these commodities. But now, cotton also is produced in Russia, in Egypt, in Brazil, in Turkestan, and in India, as well as in other places; the wheat belt has moved steadily to the Northwest until the United States no longer is as important as a wheat exporting country; and more copper now is produced in South America, Canada and in Africa than in the United States.

The big mistakes the bulls on cotton made last Summer, when they bought cotton futures on the poor crop here in the South, was that they forgot to look at the whole world supply situation. Other countries had a good crop.

We have found out on the New York Stock Exchange that the safest markets in the world are free markets. The 1929 stock market collapse undoubtedly was accelerated, if it was not precipitated, by the fact that prices had been advanced too fast and too high under artificial conditions — by the use of too much credit and by either winking at or actually aiding in the artificial operations of pools and other manipulative activities.

Prices Threaten Our Prosperity

If there is any incipient danger to prosperity in our present national economy it is, as you know, in the field of prices. There always is a danger that people will come to think of prices as an end in themselves rather than as merely a function in the economy. Too many in late years have been regarding price as an objective. The function of price in any commodity is only to regulate its supply and to regulate the demand for it.

Just recently some things have been going up in price very rapidly. Price control kept prices for some products and commodities far too low; not enough was produced and too few were discouraged from wanting to buy. Someone had to go without, or to have too little. Now prices are being allowed to rise. The advance in prices has a double effect; it makes for a smaller demand and a larger supply. Eventually, when the supply is larger and fewer people buy, prices will have to come down so as to entice people to make purchases.

The danger here, of course, is that too many things will go up too fast and price themselves out of the reach of mass buying power. So long as there are only a few automobiles made, of course, manufacturers can dispose of small cars for $1,600 and medium-sized cars for $2,000 — but there are many potential small car owners who can't pay more than $1,000 and many potential medium car owners who can't afford to pay more than $1,300. Until the "premium" market is exhausted, the automobile maker can get along all right and sell his production, but a time will come when he will have to tap the mass market. This can be done only when cars are obtainable at lower prices.

The same thing can be said for almost every scarce and high priced item about which people now complain. As prices resume their functions in a free price economy, strange things are happening. We should not confuse the abnormal and the unusual with the normal and the usual. These present obvious maladjustments are the product of more hidden maladjustments which preceded them. Many of them, to be sure, were the necessary product of a long and hard-fought war.

Price control was not all wrong during the period in which our nation was in danger, but every economic literate knew that its long-range consequences would be such as to demand painful adjustments.

Now we are in the midst of the great adjustment. Unquestionably the farmer will be the first to feel the blow of falling prices. But he is best equipped to withstand the shock. He seems to have more notches in his belt. But why is he so well equipped? Because he is willing to work hard. He has always worked hard and the fact that he has paid his debts down to the lowest figure in years testifies to his good sense. He is making strides in the better utilization of his land. More and more of his crops are being used by industry through the progress of chemurgy. Great new vistas in agriculture are being opened to us constantly. To me as a farmer, the future never looked brighter. I heard many times last month immediately after the election, "Thank God for the American farmer." I repeat that tonight. He will always be a tower of strength in the economic and social life of our nation. Don't ever sell him short.

Necessity of Markets

One other thought and I am through. You have taken from the bowels of the earth the most valuable precious natural resource in the world — petroleum — in ever-increasing quantities. You have shipped its by-products into the other 47 states of the Union. You have piped natural gas to Atlanta, to California, Colorado and Illinois and now you propose to transport it to the New York metropolitan area.

The significance of my observations lies not necessarily in the vast productivity of your State, but rather in the fact that you must have "markets" to exploit your enormous resources.

Production, distribution and consumption are the cornerstones of an economic existence. I need not tell you that the wealth produced in Texas is consumed only to a very minor extent in the same form in this State. Other parts of the country — and indeed of the world — buy your oil and cotton and sulphur and have sent untold sums into your State or made it possible for Texans to buy the goods and services of every variety which are required for an ever-improving standard of living.

This interdependence of the economic life of one section of the country on the nation and the rest of the world is one of the central points which we must fully recognize in formulating our future political and economic policies.

What I have already said, perhaps too bluntly, is that to some extent Texas has been living off its capital and confusing capital returns with recurring income. We have a similar problem in New York in capital gains, although I believe the Treasury and Wall Street make the mistake of underestimating the other forms of capital gains outside of profits in securities. It is unfortunate that the capital gains tax is entrenched in the intricacies of the tax structure.

It cannot be too often emphasized, however, that there is a basic distinction between income and capital gains, and that our method of taxing the latter is extremely crude, for one thing, since in a period of rising prices such as we have been going through for some years, gains are only paper profits to a very great degree. Ask anyone who has sold his residence or ranch, bought 10 years ago, and who is now seeking another place.

What we are all aiming at, east and west, north and south, is the full utilization of our resources, both the resources in the soil and our human resources. This means that we must not put impediments in the way of their use. One of these impediments is the capital gains tax which should be modified in the interest of putting all of our resources to work, particularly since in the present period of readjustment it will be necessary to stimulate risk capital in every form. Texans are not afraid of risk; historically you took great risks to gain independence and developed your resources without asking for guarantees. You and I are one in demanding only that the cards be not stacked against us in the future.

ABA Calls for Abolition Of Regulation W

(Continued from page 3210)

terprise system.' Among these controls, it included the control of consumer credit known as Regulation W.

"On November 16 the Board of Governors of the Federal Reserve System announced the streamlining of Regulation W. This was widely publicized as an important step in the Board's program of modifying Regulation W. whereas in fact the principal relief it granted to consumers was in the matter of charge accounts. The limitation on the use of charge accounts was lifted; however, rigid controls were continued on the use of consumer instalment credit.

"Now that all other controls governing the purchase of consumer durable goods have been removed, the time has come for the complete abandonment of Regulation W.

"We recognize that some consumer durable goods, including automobiles, refrigerators, washing machines, etc., are still in scarce supply. However, we also realize that if the distribution of these goods is to be on a fair and equitable basis, the arbitrary restrictions imposed under Regulation W on the consumer financing of these goods must be eliminated. The only way these goods can be made available to all groups of our citizens is to permit sound credit terms which are within the reach of the vast majority of the people. The terms now required under Regulation W mean that the little fellow must obligate himself to make monthly payments of such size that they would be a financial burden that he cannot afford to assume.

"The Consumer Credit Committee of the American Bankers Association is aware of its responsibility to help combat inflation. The Committee recognizes that it would be a mistake to do anything that would contribute to inflationary pressures. However, the Committee believes that the arbitrary control of consumer credit is inflationary because if the terms imposed are too severe for most people to buy needed consumer goods out of income they will be forced to cash war bonds to purchase such goods. The Committee further believes that bankers and businessmen could put in effect sound credit terms. Such terms would make it possible for people in the middle and lower income groups to buy necessary goods. These terms would not be inflationary, nor would they affect prices or require policing by the government. What these terms should be is a matter of education on the part of each lender. This Committee would be pleased to advise banks, for instance, what in its judgment are sound, standard terms in this particular period. The losses that would inevitably result from loose terms that create unsound loans is the natural check on our system of individual enterprise. A free yet sound flow of consumer credit can be maintained only if bankers and businessmen are free to use their own best judgment, based on their intimate knowledge of the borrower and local conditions.

"With the elimination of controls on prices and wages there is no longer any justification for the existence of Regulation W. The Board of Governors of the Federal Reserve System suggested in a recent report to Congress that this regulation be made a permanent credit control. Regulation W was a war emergency measure. It was never intended to be a permanent government control and should be abolished now. It is hoped that the new Congress will agree with this view."

A Wage Policy for 1947 Prepared for CIO

(Continued from page 3209)

tion that profits are extremely high in comparison with all previous experience.

The growing concern over economic developments is not limited to businessmen. Concern is greatest among the millions upon millions of workers who have been caught in the vise of the inflationary rise in prices and whose incomes have shrunk substantially in terms of the food and clothing and other necessities of life which can be bought with the contents of the weekly pay envelopes.

Seldom, if ever, in our history have we experienced within a few brief months, such a major shift in economic well-being with drastic consequences to such a large proportion of our people and to our whole economic stability as has occurred in 1946. From a successful period of stability in prices prevailing throughout the war, we have moved into a state of unhealthy and harmful inflation, all within a few months. As the detailed facts demonstrate, this situation may be traced to the successful pressure against price control in the face of continued shortages arising out of the war and the insatiable quest for ever higher profits. The results may be clearly seen in the growing burden upon workers, paralleled by the lushest profits in history.

The demand for some types of goods and services has already softened. Millions of low income families find themselves priced out of the market. The demand for most goods is still very high because of the backlog of wants and the high incomes and accumulated liquid savings of those in the middle and higher income brackets. These demands cannot form the basis of continuing prosperity. Long-term prosperity must be based on expanding mass buying power. It cannot be achieved by shrinking the buying power of the workers in order that profits may rise far beyond reasonable and stable levels.

2. Never in recent years has the national interest so clearly required a major general increase in real wage rates.

The purchasing power of by far the greater number of American families has been falling recently, month by month. Of all the gainfully employed people in the United States, about three-quarters are wage and salary earners. These—the great bulk of our people—have suffered a major decline in the real value of their earnings during the past two years; in recent months this decline has been proceeding at an alarming rate.

Meanwhile incomes other than wages and salaries have not declined but on the contrary have increased sharply. Since 1944, while the total of wages and salaries derived from all sources—public and private—has fallen, corporate profits after taxes have risen about 50%, and the incomes of farm operators (after all expenses) have risen about 40%. Earnings that go, on the whole, to the more prosperous among our people have risen sharply, while the earnings of the workers have fallen.

Three dangers are inherent in the present trends toward a reduction in the real income of wage and salary earners and an increase in the share of the total national income going to profits. First, the living standards of the masses of our people—never better than a tenuous compromise with minimum requirements of health and decency—are being seriously undermined. Second, the long-term stability of our economy is being endangered by a shift of income away from the consumption of the masses and toward the savings of the relatively few. Third, the social and political health of our democracy is being threatened by the concentration of income and wealth and the resultant concentration of power and influence. These are great dangers.

It is obviously futile, at the present time, to anticipate correction of these dangerous trends through reductions in prices and profits. The regulatory mechanisms by means of which reductions in prices and profits might have been achieved, through government action, have been shattered irretrievably. Moreover, businessmen show no signs of exercising such self-restraint in their natural search for profits as would bring about a decline in prices except in the face of a sharp reduction in demand. On the contrary, the business community has first pushed aside price controls and then raised prices rapidly in the face of already huge profits. In the five months ending October 1946, living costs consequently rose nearly as much as in the fifty months following Pearl Harbor. Wholesale prices rose even more.

It seems equally futile to anticipate a correction of these dangerous trends through a change in tax policy. On the contrary, current congressional tax-thinking runs, at best, in terms of *an equal percentage reduction in total individual tax liabilities* for all individuals now paying income taxes. This would mean an enormously greater percentage increase in income after taxes for large incomes than for small ones. Therefore, if current congressional ideas prevail, changes in taxes will still further accentuate the dangerously diverging trends in incomes from wages and salaries as compared to incomes from profits.

3. Public opinion has been lured into a false sense of security with respect to national wage trends by exaggeration of the extent and the significance of increases in straight-time hourly earnings.

There is a widespread belief, particularly among businessmen, that "Everybody got an 18½-cent an hour increase this year." This belief is mistaken.

Over the entire period from January 1945 to October 1946, average straight-time hourly earnings in all manufacturing rose by only 12.7 cents, from 97.0 cents per hour to 109.7 cents per hour (Chart and Table 13). This measure of hourly earnings, which disregards overtime premiums, therefore rose 13.1% during the past two years.

Apart from individual industry variations, which have been substantial, there has been a broad difference in the pattern of increase in straight-time earnings between durable and nondurable manufacturing. This difference reflects the contraction in the demand for labor in the durables after the war peak and the sustained expansion in nondurables (Chart and Table 3).

The rise in straight-time hourly earnings has been more continuous and substantially greater in the nondurable goods category than in durable goods manufacturing (Chart and Table 14). From January 1945 to August 1946, the gain in the durables group was only three-fifths as much as the gain in nondurables. The gain in durables for the whole two years took place entirely after the steel dispute settlement of February 1946.

STRAIGHT-TIME HOURLY EARNINGS

	Durable Goods Manufacturing Industries	Nondurable Goods Manufacturnig Industries
January 1945	105.3 cents	84.0 cents
February 1946	103.2	91.7
August 1946	114.9	100.1
Change Jan. 1945 to Aug. 1946	+9.6	+16.1

Changes in straight-time hourly earnings are not directly significant in measuring the economic changes in which we are most interested. Changes in straight-time hourly earnings do not directly measure changes in labor costs; neither do they directly measure changes in the money that the worker has available to maintain his standard of living. These most vital issues are discussed below.

4. While there has been a sizable increase in dollars and cents straight-time hourly earnings, the increase in cost to employers of an hour of work has been much more modest. The increase in labor cost per unit of product has been even smaller.

As indicated above, the average increase in straight-time hourly earnings in all manufacturing since January 1945 has been about 13.1%; in nondurables alone it has been 19.2% and in durables about 9.1%. However, due to the reduction in overtime work and the consequent reduction in overtime premiums, the average cost to employers of an hour of work has risen only about two-thirds as much as the increase in straight-time earnings.

Because of the progress of demobilization, employers have been able to increase the number of their employees, eliminate overtime, and effect a corresponding reduction in their hourly labor costs. From January 1945 to October 1946, total civilian employment increased from 51.7 million to 57.4 million (Chart and Table 2) while the average of hours worked in all manufacturing fell from 45.4 to 40.5 (Chart and Table 8).

The differing impact of the decline in overtime work in the durable and nondurable goods manufacturing industries is revealed in the following data:

INCREASES IN HOURLY LABOR COST AND STRAIGHT-TIME HOURLY EARNINGS, JANUARY 1945 TO OCTOBER 1946

	All Manufacturing	Durable Goods Manufacturing	Nondurable Goods Manufacturing
Straight-Time Hourly Earnings	12.7 cents	11.3 cents	18.3 cents
Hourly Labor Cost	8.6 cents	6.1 cents	16.4 cents

While the average dollars and cents cost per hour of work in manufacturing rose by 8.6 cents, the average dollars and cents labor cost per unit of output presumably rose even less. Since Janary 1945 the quality of the civilian labor force has improved notably. Men with experience have been demobilized and have taken jobs formerly held by women and by very young and very old persons who are not normally members of the labor force. Higher level operations in the mass-production industries are being achieved and bottlenecks are being eliminated; both of these trends mean higher man-hour productivity. While it is too early for conclusive statistical evidence of a post VJ-Day increase in man-hour productivity (except in a few industries that have specially good data), there is a reasonable presumption in favor of such higher productivity. It is not at all improbable that the increase in productivity has offset a substantial part of the increase in hourly labor costs.

Even if there had been no increase in productivity during the past two years, labor cost increases would hardly begin to explain the rise in prices. An increase in hourly labor costs in manufacturing even of 8.6 cents from January 1945 to October 1946 is an increase of only 8.2%. This compares with an increase of 25.3% in all wholesale prices between the same dates (Chart and Table 16) and an increase of 27.9% in the wholesale prices of manufactured articles alone.

5. The average weekly earnings of production workers in manufacturing have declined—even in dollars and cents—during the past two years. In general, only workers in the lower-paying industries have had increases in their weekly earnings during this period.

In all manufacturing, there has been a decline in weekly earnings of $1.67 or 3.5% from January 1945 to October 1946 (Chart and Table 4).

In durable manufactures, where the decline has been concentrated, there was a net loss of $4.48 in weekly earnings. In nondurables there was a rise of $3.82.

Most production workers in important relatively high-paid mass production industries have suffered a sharp loss in weekly earnings since January 1945. Workers in low-paid industries have generally had increases (Charts and Tables 5, 6 and 7).

WEEKLY EARNINGS OF PRODUCTION WORKERS

Selected Industries—	Jan. 1945	Oct. 1946	Change
Automobile	$59.42	$53.12	—$6.30
Steel	55.04	50.28	— 4.76
Petroleum and Coal Products Mfg.	56.20	55.20	— 1.00
Lumber and Timber Products	33.72	38.79	+ 5.07
Canning and Preserving	31.69	41.54	+ 9.85
General Retail Merchandise Stores	22.31	28.57	+ 6.26

6. Taking into account the increase in living costs during the past two years, the decline in real weekly earnings of almost all classes of workers has been very great. On the average, in all manufacturing, an increase of about 21% in weekly earnings—without any increase in prices—would have been required in October, 1946, to bring real weekly earnings back to the January, 1945, level. By the end of 1946, with the present trend of prices, an increase of about 23% will be required.

From January 1945 to October 1946, living costs (Charts and Tables 16 and 17) have risen 16.8%. From January 1945 to May 1946, the rise was only 3.6%. But since the abandonment of price controls, the cost of living has increased very rapidly. The index will probably stand 20% above the January 1945 level by the end of 1946.

This development means that, in terms of January 1945 prices, average weekly earnings in all manufacturing were only $39.24 in October 1946 compared to $47.50 in January 1945 (Chart and Table 18); a rise of 21.0% would be required to erase the loss. Workers in manufacturing can now buy only about four-fifths of the goods and services with their weekly pay that they could buy in January 1945. In durable goods alone a rise of 27.5% in weekly earnings would have been required in October 1946 to restore real earnings to the January 1945 level.

It must be emphasized that the percentage rise in dollar earnings required to bring real weekly earnings back to the January 1945 level varies considerably from industry to industry (Chart and Table 19). For automobiles it was 28.4%, for steel 25.7%, and for electrical machinery 17.6%. There is no presumption that the profit position of companies in these industries varies in relation to the increases which would be needed to restore the buying power of weekly earnings to their January 1945 status.

Changes in real weekly earnings are the best general measure of the ability to sustain or improve the standard of living. It may, however, be argued, with considerable force, that workers put in longer hours during the war than they would like to work permanently.

A reduction in hours worked may mean some increase in welfare even if secured through a moderate reduction in real purchasing power. For this reason, it is of value to examine the trend of real *hourly* earnings as well as real *weekly* earnings.

7. The real hourly earnings of labor in all manufacturing in October, 1946, required an increase of 8% to equal the real hourly earnings of January, 1945. With present price and wage trends, the real increase required at the end of 1946 will be about 10%.

In durable manufacturing alone, the increase required in October to reach the Jan. 1945 real earnings rate was 10.9% (Chart and Table 20). In nondurables, the real hourly rate in October was already 1.3% above the Jan., 1945 level (though 6.0% below the real earnings peak of May, 1946).

In indicating the increases in weekly and hourly earnings that are required at the present time to restore real earnings to the Jan., 1945 level, we do not mean to suggest that there is ground for national complacency concerning even the highest standard of real earnings yet attained by American workers. On the contrary, even the highest standard of living yet reached by American workers falls far below the level that we are accustomed to consider "the American way of life."

Neither do we wish to suggest that the standard of living is the only proper subject of consideration in the formulation of national wage policy. Costs and productivity in their most concrete and practical form—namely as reflected in profitability—are considered below.

8. There has been one outstanding development in the earnings of labor during the past two years. This development has been a very pronounced tendency for the lowest-paid groups of workers to receive the relatively larger wage increases.

There is great—though not complete—consistency in the trend toward greater percentage wage increases in lower-paying than in the higher-paying industries (Charts and Tables 3 to 12). Within the broad durable and nondurable manufacturing groups, it is the lower paid industries that have had the larger pay increases relative to their previous earnings. On the whole the nondurable goods workers (who are, as a group, the lower paid) have received greater increases than the durable workers. Many especially low-paid nonmanufacturing groups have also moved up sharply. The convergence since Jan., 1945 has been greater in weekly than in hourly earnings because the loss of overtime has been more pronounced in the higher-wage industries.

There has been a convergence of earnings not only in comparison with 1945 but also—quite strikingly—in comparison with 1939. It is one of the most constructive developments of the 1940's that the earnings of lower paid workers now more nearly approximate the earnings of the higher paid workers than was true in the prewar years. The strong demand for labor and the efforts of the better-organized workers have therefore not benefited only the already relatively well-paid groups of workers.

This convergence of labor earnings means that, while there is still a great range of individual differences and a great variety of individual industry problems, it is more meaningful to think in terms of an overall national wage policy now than at any other time in our recent history. Such general thinking will still need to be adjusted to the individual facts in each industry or firm under direct consideration, but it can afford some broad policy guidance.

9. At full employment, the present price and wage structure of American industry yields a level of corporate profits before taxes as high as at the lushest period of war prosperity. It yields a level of corporate profits after taxes about 50% higher than the war peak and utterly without earlier precedent in our national experience.

In Dec. 1946 the economy has not yet reached the high level of production and profits that is in prospect in several fields, particularly in consumers' durable goods. Yet we are already at approximately a $25 billion level of total corporate profits before taxes (Chart and Table 22). This volume of profits equals that of the best war year; it is more than 2½ times the 1929 volume of profits and nearly five times the average 1936-39 profit volume. The total Gross National Product is now only 2½ times as great as it was in 1939 (Chart and Table 1); the share of corporate profits has increased greatly.

For manufacturing corporations alone, the profit situation is only slightly less brilliant—on a before taxes basis. Due to the exceptional volume and profitability of wartime manufacturing business and also to major interruptions of production in 1946, profits before taxes in manufacturing are still below the war peak. But they are now passing the $13 billion mark—a level more than 2½ times that of 1929 and more than four times the average of 1936-39.

On an after taxes basis—which is most relevant to the earnings of stockholders — corporate profits are approaching $15 billion, fully 1½ times the level of the best war year (Table and Chart 23). Due however to the lower prewar corporate tax structure, corporate profits after taxes are now about 1¾ the volume of 1929 and 3¾ times as high as the average of the years 1936-39.

For manufacturing corporations alone, on an after taxes basis, the picture is very similar. At the end of 1946, profits are approaching an annual rate of $8 billion. They are about 45% above the best war year, 1¾ times as high as in 1929, and 3½ times as high as the 1936-39 average.

The economic and social consequences of such an unprecedentedly high volume of profits are of the highest import. They require the earnest consideration of the American people.

10. Total corporate income has risen much more rapidly since 1939 — and especially since 1945—than income from wages and salaries.

On a before taxes basis, corporate income rose by approximately 275% between 1939 and the year 1944, while wages and salaries derived from private employment* rose by only 138%. Since then, as demobilization has progressed, private wages and salaries first decreased and then moved up to a level 169% above 1939. Corporate profits also dipped but have subsequently recovered to a level about 290% above 1939.

On an after corporate taxes basis, corporate income rose 133% from 1939 to 1944 while private wages and salaries rose 138%. Since then private wages and salaries have risen by a further 12% while corporate profits have risen by a further 50%.

11. In spite of the increase in corporate taxation since the late 1930's, total corporate profits after taxes are now greatly higher in relation to sales than they were in the prewar period.

In the years 1936-39, all corporations earned an average return (after taxes) equal to 3.2% of the total value of their sales (SChart and Table 26). In the last half of 1946, they had a net return of about 5.8% on total sales. This is an increase of four-fifths in the net rate of return on sales.

If all corporations had only the same average rate of return on sales at the end of 1946 as the average of 1936-39, their net earnings would be running at an annual rate of approximately $8¼ billion rather than $15 billion. This would still be double the 1936-39 profit level. A gross profit of about $13¾ billion (instead of the present annual rate of about $25 billion) would suffice to yield a net of about $8¼ billion. Therefore, *by accepting the prewar rate of net return on sales, all corporations would be able to grant wage increases at an annual rate totalling roughly $11¼ billion.* An even greater increase in wages would be possible if corporations were to accept the same rate of profits before taxes on sales as in 1936-39; this would merely mean that they would not shift the increase in corporate taxes onto prices.

Manufacturing corporations alone had a somewhat higher rate of net return on sales in 1936-39 than all corporations—4.3% instead of 3.2% (Chart and Table 27). In the last half of 1946, manufacturers' rate of net returns on sales was about 5.7% or 33% higher than in 1936-39. This more moderate rise in the rate of manufacturers' returns compared to those of all corporations reflects particularly the present lush margins at all levels of distribution.

If manufacturing corporations had the same rate of return on sales as in 1936-39, their net profits would now be running at an annual rate of about $6 billion instead of $8 billion. Their gross profits would be about $10 billion instead of about $13¼ billion. They would have about $3¼ billion to contribute to wage increases.

12. Corporate profits are now especially high in relationship to net worth or to any other significant measure of the stake of ownership in business operations.

Sales volume is an equivocal yardstick for measuring profits—especially in the perspective of wage policy—because the volume of sales is a joint product of capital and labor. The ownership stake in business enterprise and the level of profits are more adequately appraised in relation to net worth or some other index of investment. Net worth would be an unexceptionable measure of ownership participation but for the great increase in cash and Government securities held by business enterprises in recent years. In a realistic sense, a very large part of this cash and Government securities is not invested in the business and has no claim to earn a normal business return on investment. In the very substantial measure that net worth is inflated by such assets, the ratio of profits to investment in recent years is unduly minimized.

It is therefore all the more striking that the return, after taxes, of all corporations on their net worth rose from 2.9% in 1936-39 to 9.1% in the fourth quarter of 1946 (Chart and Table 26). It is similarly striking that the net return of manufacturing corporations on their net worth rose from 6.9% in 1936-39 to 11.6% in the fourth quarter of 1946 (Chart and Table 27). By other measures, which attempt to correct for the excess amount of cash and Government securities included in net worth, the rise is even more spectacular (Chart and Table 28).

Even the conventional net worth measures reveal some striking implications for price and wage policy. If all corporations were content to accept their 1936-39 rate of return on net worth, they could afford at the present time to grant wage increases of an annual value of about $17 billion. Manufacturing corporations alone, without reducing their rate of return on net worth below the high level of 6.9% earned in 1936-39, could grant wage increases of an annual value of about $5.1 billion. After granting this $5.1 billion of wage increases, manufacturing corporations would still earn about twice the average $2½ billion of profits that they earned in the years 1936-39 and nearly as much as they earned at the war peak.

The calculations cast some light on the irresponsible assertions that the price increases that have occurred during 1946 were made necessary by wage increases. On the contrary, there is every reason to conclude that—with exceptions in some few industries and firms—these wage increases could have been absorbed and a satisfactory level of profits nevertheless maintained. The 8.2% increase in average manufacturing hourly labor costs could easily have been absorbed out of the lavish profits that have been earned. In fact, on the average, substantially larger increases could have been absorbed. Some necessary increases in prices could have been counter-balanced by price decreases. Such a healthy wage, price and profit development would have been particularly assured had reasonable wage increases been granted without long-drawn-out interruptions of production. Peaceful settlements between labor and management in 1946 would have meant even larger output and therefore greater profitability and greater capacity to pay the higher wages without raising prices.

13. Even manufacturing corporations, whose profit position has not improved nearly so much as that of all other corporations, can afford to grant their production workers an increase of 21% in total earnings at the present time without reducing the corporate rate of return on net worth to a level below the 1936-1939 average of 6.9%.

As indicated in point 11 above, the 1936-39 rate of return on net worth for manufacturing corporations (after taxes) was 6.9%. Maintenance of this rate of return would permit, at the present volume of business and with present productivity and prices, the granting of about $5.1 billion of annual wage increases. It would also leave corporate profits *after* taxes about *twice* as high as 1936-39.

Total manufacturing production workers' payrolls in the last quarter of 1946 will be at an annual rate of about $27 billion. But in 1939 about 10.6% of total manufacturing payrolls were accounted for by unincorporated business. Even if we allow only about 9% for unincorporated business at the present time, the share of total payrolls properly attributable to corporations would be only about $24½ billion. A 21% increase on $24½ billion would be about $5.1 billion.

It must be emphasized that this 21% increase in earnings is possible on the average, in manufacturing corporations, without *any* expansion in volume. Such an increase is independent also of the possibility of adding to the profits of manufacturing corporations by raising manufacturers' prices and retaining present prices at later levels of distribution, thus moving in the direction of restoring former profit relationships as between manufacturing corporations and others. Should such a restoration of traditional relationships take place, a substantially larger increase than 21% in the earnings of production workers in manufacturing would be possible without any increase in final prices. On the other hand, this makes no provision for increases in wages and salaries of the nonproduction workers.

Unfortunately, due to the absence of appropriate payroll data for all corporations, it is impossible to make the same type of analysis of the wage increases that could be made out of the excess profits of *all* corporations as is possible for *manufacturing* corporations alone. We can be confident, however, that the increase possible on an *all* corporations basis would be much the larger. As indicated in point 11 above, the rate of return on net worth for all corporations has more than tripled since 1936-39 while the rate for manufacturing corporations alone has less than doubled. It may therefore be conjectured conservatively that if the excess profits of manufacturing corporations will support a rise of 21% in wages in manufacturing the excess profits of all corporations will support a general wage increase of at least 25%.

In suggesting the possibility, for industry in general, of absorbing wage increases of approximately these magnitudes, we are not referring to distant prospects. We are referring to economic realities attainable with industrial peace at the close of 1946. No doubt, over time, further increases in productive volume, in labor efficiency, and in profits are attainable. It is perfectly possible for business, under such a healthy development, to grant wage increases of this order of magnitude, stabilize prices, and achieve substantially larger profits than we have indicated.

14. The salient facts of the wage-price-profit situation in American business today indicate that the national interest requires a major general increase in wage rates. It is most important that this general wage advance be achieved without crippling work stoppages.

The basic facts are clear. An increase of about *10%* in hourly earnings in manufactures is required at the end of 1946 to bring real hourly earnings back to the Jan., 1945 level; an increase of perhaps *23%* is required to bring real weekly earnings back to the Jan., 1945 level. An increase of about *17%* is required to meet the increase in the cost of living since the enunciation of the Feb., 1946 Government wage policy. In manufacturing industries alone, the end of 1946 level of corporate profits after taxes will support a *21%* increase in the earnings of production workers, without any further increase in productivity, without any further expansion in volume, and without reducing the return after taxes on net worth to a rate below that of 1936-39. In *total corporate enterprise*, the profit position is less precise statistically but clearly much more favorable than in manufacturing alone, in comparison with prewar; it may reasonably be conjectured that total corporate business can support a *25%* increase in wages on the same basis that manufacturing alone can support a 21% increase.

These facts are descriptive of the basic general situation. They do not apply exactly to any individual industry. Obviously, the profit and wage picture must be considered separately in each wage negotiation.

The facts adduced in this survey provide the general economic background for particular wage discussions and settlements. They have been assembled to throw light on the general wage-price-profit situation. Major decisions in national wage policy are clearly imminent. It is hoped that the assembly of these facts may be helpful in bringing about equitable decisions, made in full awareness of current economic conditions.

A stalemate on national wage policy would be tragic. By depriving the economy of the production that comes from high-level operations, a stalemate would impoverish both labor and management. It would also materially detract from the ability of our economy to contribute to world reconstruction.

15. The facts all lead to the conclusion that not only from the worker's point of view but also for the benefit of the whole economy a further substantial wage increase without a general price increase is possible, justifiable and essential.

As has been shown in the preceding analysis and as can be seen in the following tables and charts, the facts combine to indicate the need for wage increases without corresponding price increases. The inflation in which we are enmeshed is clearly not necessary to maintain a healthy level of profits. The wage increases of the past year could have been absorbed without any general rise in the price level. The price line could have been held and still yielded excellent profits.

Business on the whole has given no evidence of restraint or consideration of the dangerous consequences of such excessive profits and such loose pricing. Business policy clearly has been shortsightedly set on raising prices again and again and taking all that the market can bear.

The Office of Price Administration has demonstrated (*Eighteenth Quarterly Report*, June 30, 1946, pages 6-11) that the price advances made by leading industries were not necessitated by wage increases. The OPA points out that actual price increases made by fifteen industries before June 30, 1946 were 3.6 times as large as were necessary to offset the wage increases granted. Since June 30 the increase in manufacturers' prices has been even greater and the relationship to wage increases even more remote. In the second quarter of 1946 profits after taxes for all corporations were already well above the war peak. Yet since June wholesale prices have risen 21% to bring a further sharp rise in profits. Part of this increase in prices reflects the rise in prices of farm products whic hare processed in manufacturing industries. However, prices of industrial products have also spurted far ahead since June.

There are those who urge labor to abstain from requesting wage increases on the grounds that such a policy would avoid further economic and social difficulties. These people must assume either that the present economic situation is already sound or else that it contains within itself elements leading to an early healthy balance and stabilization. We reject this point of view. The present imbalance between wages and profits is unsound; it is not automatically self-terminating in a manner compatible with general economic stability. Rather, it is self-terminating through a recession. Unless there is an immediate increase in wages or a sharp drop in prices, we are flirting with collapse. There is no evidence to date to indicate that business will cut prices prior to a depression in

(Continued on page 3248)

*We have excluded civil and military Government wages and salaries throughout this comparison because no profits accrue from Government employment. Including such Government payrolls, total wages and salaries rose by 155% through 1944 but have fallen to 150% above 1939 at the present time.

A Wage Policy for 1947 Prepared for CIO

(Continued from page 3247)

which unemployment, declining incomes and shrinking demands will make price declines unavoidable. This is too high a price for bringing wages and profits into sounder alignment.

It would not do labor or the public or business any good for labor to forego the needed wage increases. Rather, raising wages without increasing prices appears to offer the only currently possible means of bringing about the kind of relationship which will avoid a serious decline in business activity. Such a policy would step up buying power and bring back into the market for many categories of goods those millions of working families who have been removed from the market because of rising prices. Such a policy should appeal to business as well as to labor as a sound way to restore the basic economic strength which will in turn bring optimism and a sense of security to replace the present pessimism and insecurity.

It would appear statesmanlike for both labor and management to look the facts in the face and to arrive at peaceful conclusions with respect to sizable wage increases immediately. Through such a policy we can have industrial peace; we can have gradually increasing production accompanied by increasing efficiency and productivity; and finally we can have stable prosperity. We have the productive capacity and we have the needs for continuous full employment and an ever increasing standard of living. Now is the opportunity to move in the proper direction to make the most of our capacity.

We do not suggest that a policy of major wage increases is in itself sufficient to assure a continued stable and equitable expansion of economic activity. On the contrary, complementary policies are required in a great many fields. Fiscal and particularly tax policies need to be altered drastically to exercise control and restraint. Other controls of a direct character are also necessary to meet special shortage situations. Curbs to monopoly and to concentration of wealth need to be re-designed and administered with a new determination. At the same time, we need to provide, especially through the long-overdue expansion of our social security system, for the maintenance of effective demand where the needs are greatest. Minimum wages must be established at higher levels. We need an unequivocal restatement of public responsibility for the maintenance of full employment and a renewed determination to cooperate with other nations in the achievement of this objective. Major wage increases at this time are but one element in such a well-rounded program for sustained economic growth and a wider diffusion of the benefits of such growth among all our people.

Regulation Rapprochement

(Continued from page 3203)

The promised SEC elasticity is also a jumping of the gun, for it must be clear that the new Congress will restore many of the liberties infringed upon by the Securities and Exchange Commission, which impair free, open and liquid markets.

The presently expressed good will of the SEC is in no sense voluntary.

The Maloney Act, the medium of creation of the National Securities Dealers Association, has so stigmatized the SEC as to constitute it a blot upon our National escutcheon.

Of the disgraceful ways in which NASD has acted as co-policeman with SEC, one of the most odious is its self-imposed OPA inherent in "the 5% spread philosophy" which attempts to place a ceiling upon spreads.

The challenge to disclose the extent of in camera activity between SEC and NASD has never been met.

The monopoly features of the Maloney Act giving special financial advantages to the members of a National Securities Association, we believe to be violative of the United States Constitution, class legislation and contrary to proper practice.

We regard the NASD as another NRA, only distinctly more vicious in form.

We believe that the history of the transformation from the one set-up to the other, and the persons involved, would make decidedly interesting and enlightening reading.

Regulators may as social creatures be personable individuals. This may be said of Chester Bowles, Henry Wallace, and Wallace Fulton.

However, when they are engaged in activities, pursuant to their ideologies, which adversely affect the welfare of the people, then it is time to call a halt.

Shortly the NASD will elect a Chairman of its Board of Governors.

We understand it to be the custom of every newly elected Chairman of the Board of Governors of the NASD to go on a transcontinental junket under the supervision of the Executive Director with the aid of the Public Relations representative.

We believe it to be high time that the Executive Director of the NASD adopted a hands off policy with respect to the Chairman of the Board of Governors so as to make it simpler for such Chairman to assert his independence.

In our opinion Wallace Fulton has been too much the indoctrinator and too little the servant of the securities industry.

Phrase coinage to effect oppression is as characteristic of the securities field as it is of other activities where freedoms are interfered with.

Hence it is a commonplace nowadays to hear the term "fringe dealer."

Of course a fringe dealer is always the other fellow.

Dealers are either entitled to be such under existing laws or they are not.

The term fringe dealer while picturesque, is entirely a misnomer and a figment of the imagination.

Such persons or entities do not exist.

Freedom is now being sought on a world scale.

As a nation, we are regarded as the leader in that movement.

How important it is, therefore, that in our domestic affairs we clean house.

What we seek to do on an over-all scale let us first achieve in our own nation.

Government by men must be erased and government by law restored.

For a long time our constitutional institutions have served us well and were a bulwark protecting our freedom.

Unfortunately, there have been recent departures that threaten our welfare.

The Maloney Act was definitely such a departure, saddling us with the NASD.

To discourage monopoly, prevent secret interactivity between the SEC and the NASD, to encourage free, open and liquid markets; for all these purposes, among many others, the Maloney Act should be repealed and the existing National Securities Association as defined therein, abolished.

We are in sympathy with voluntary self-regulatory bodies.

The NASD is not one of these.

Now is the time to be rid of it.

Rule of Men Displacing Rule of Law

(Continued from page 3224)

ing its influence over purely intrastate matters, if any have escaped the capacious maw of Federal power.

The system is well entrenched. The process has gone far. We can only hope gradually to ameliorate its atrocities and effect procedural improvements. The Administrative Procedure Act was a step in the right direction, but only a step.

Eternal truths have to be learned by sad experience over and over again. Error moves rapidly, often under the guise of reform, but real reform is a slow and tedious process.

Rule of Equality Violated

The rule of law requires equality. That all must be equal before the law in a free country is another truism that is too often forgotten. I do not now speak of administrative law and practice which, under the best of conditions, are bound to be more or less discriminatory, because that is inherent in the nature of man. No judicial review can change that.

I refer to statutes which are avowedly and intentionally discriminatory.

The tendency to discriminate is inherent in all forms of government. That is one of the reasons why the founding fathers provided checks and balances. It is inevitable under autocratic government and has been one of the rocks on which all forms of government have floundered in the past.

That is not a reason to condemn democratic government, but it is a reason for unremitting vigilance to preserve that equality before the law which is the very essence of democracy.

Quite naturally, discriminatory laws are passed to favor the largest groups, the farmers and the workers who have the most votes. They should be favored to the extent of putting all on a plane of equality, but the effort to do that has gone too far and resulted in legislation injurious to the public and in the long run most of all to those whom it is intended to serve.

That has been the primary cause of the predicament in which we now find ourselves and the danger is that we may go too far the other way, when our effort should be to restore a proper balance.

One or two examples must suffice.

We have exempted farm and labor organizations from our anti-trust laws.

To put them on a plane of equality with their suppliers and customers, the farmers must be permitted to buy and sell collectively and to engage in other collective activities.

To put employees on a plane of equality with their employers, they too must be permitted to bargain collectively, with all reasonable safeguards. Indeed, the Courts many times said that the workers had that right before it was secured to them by legislation which, however, was so one-sided as in practice to result in coercion rather than bargaining. At one time the workers had to take or leave what was offered. Now, the shoe is on the other foot and the public foots the bill.

The lust for power grows by what it feeds on. The power of collective action may endanger the very life of the community and destroy individual freedoms. Those who direct such action should be selected by democratic processes, carefully safeguarded, and should be held to strict responsibility and accountability. That is the basis of the laws we now have to secure corporate responsibility and just and fair dealings. Union responsibility can be secured in the same way.

Labor Monopolies

Monopolies are repugnant to free enterprise and free institutions. Natural monopolies have to be regulated in the public interest. Limited monopolies only are permitted to encourage authorship and invention.

We often hear and all agree that labor is not a commodity. Free men have the right to work or not to work in harmony with the like right of others. Labor monopolies have on innumerable occasions restricted or prevented the production or sale of the necessities of life. They may be as harmful to the common good and to individual rights as any other kind of monopoly. All should be amenable to the law. None should be permitted to set itself above the law and the public interest.

The prevention of irreparable injury threatened by wrongful or criminal acts has long been recognized as one of the most salutary and essential functions of courts of equity. That is not government by injunction. It is the impartial administration of justice which restrains all alike from the commission of wrongful and unlawful acts when there is no other adequate remedy.

Yet impelled by popular agitation and misleading slogans, anti-injunction laws have been enacted, which as a practical matter have put some groups above the law. Apart from the impairment of free institutions and the injuries inflicted on the public, such laws eventually react upon their intended beneficiaries as wise leaders are now beginning to understand.

It is intolerable that any man or group of men, whether representing capital or labor, should have the power to wreck the national economy or to paralyze the public services and essential industries.

The time has certainly come for a careful revision of our laws to safeguard the public interest, to make all equal before the law, and to enable this country to resume its forward march under a government of just and equal laws.

NYSE Asks Member Firms To Report Margin Accounts

The following notice was addressed on Oct. 10 by Edward C. Gray, Director of the Department of Member Firms of the New York Stock Exchange to member firms carrying margin accounts:

From time to time in the past the Exchange has requested member firms to furnish it with information pertaining to the number of margin accounts carried by member firms. It will be helpful to the Federal authorities and to the Exchange to have this information at this time.

"Accordingly, the Exchange requests that each member firm carrying margin accounts in securities for customers furnish it, on the attached stub, with the total of such accounts open on its books as of the close of business on Tuesday, Dec. 31, 1946.

"The Exchange would appreciate the cooperation of the member firms in filing the reports by Friday, Jan. 17, 1947, with the Central Receiving Dept., Stock Clearing Corporation.

"For the purpose of this report: (1) Please include only margin accounts with debit balances or with credit balances other than free credit balances; (2) Please count all the margin accounts of one person or organization as one account; (3) Please do not include: (a) cash accounts, even though the customer has signed a loan, hypothecation, or so-called customer's agreement, (b) omnibus accounts of correspondents who are members of the NYSE."

Merrill Lynch Firm Change

Effective Dec. 31, 1946, Russell Clark, New Orleans, general partner in Merrill Lynch, Pierce, Fenner & Beane, 70 Pine Street, New York City, members of the New York Stock Exchange will become both a limited and general partner; Earl W. Huntley, Los Angeles, limited partner, will become a general partner; Arthur S. Laundon and Herman Belth, general partners will become limited partners.

Problems in Business Recovery

(Continued from page 3224)

of the people but so as not to expose the Supreme Court to the hysteria and frenzy of an economic crisis during its deliberations; the assumption apparently being that the Supreme Court is not capable of "truthfully and impartially administering justice" during crises. Mr. Lewis' retreat, however, will not affect the determination of Congress to obviate such crises in the future.

Some of the probable results of their efforts will be:

1. The monopoly power of unions will be limited.
2. The closed shop in theory and practice, as we have known it, will be subject to restriction.
3. The violations of contract agreements, on the part of unions, will be subject to punishment.
4. The unionization of foremen will be restricted and foremen will probably be more definitely related to management rather than to labor.
5. The right to strike will be limited in many areas of our national economy, particularly in such industries as transportation, public utilities and the extractive industries of natural resources upon which the general public depends for economic and living necessities. In this connection steps will undoubtedly be set up through which controversies between labor and management must proceed in order to arrive at a satisfactory basis of settlement before a strike need be called.
6. The financial responsibility of the union will be established on a co-existent basis with management. In other words, the day is not far distant when unions will be required to file with the commissioners of corporations in our various States similar statements of financial responsibility to those which corporations today are required to file. It is also evident that unions will be held accountable, under the law, to their membership for the disposition of union funds in the same way that corporations are responsible to their stockholders and to the general public for the disposition of available funds.
7. The Wagner Bill will be revised in order to bring about a clarification of the employers' right to dispense with the services of those whose loyalty to the organization is under serious question and whose productive usefulness to the organization is nil.

There is no stopping this remedial legislation. The temper of public opinion is such that the next Congress has no choice open to it but to provide remedies to prevent a repetition of the chaotic conditions which we now face. The big question to be answered in the future is the attitude of the Supreme Court. In general, Supreme Courts have rendered their decisions in accord with public opinion, but this cannot be taken as a generalization in the present crisis. While labor has been critical of the courts and leaders like Mr. Lewis have tended to flout openly by action and in expressed terms the authority of the court, it is certain that labor will look, in the future, to the courts for protection of its assumed or constituted rights. By and large, labor, management and the public will, all three alike, benefit by the decisions made by the supreme judicial authority of our nation. The immediate decisions may not always be satisfactory but I believe the general interests of the nation as a whole will be best served by a proper airing of controversies such as we are now witnessing so that the public as a whole may see and understand the issues at point.

Industrial Stagnation

Industrial stagnation presents another major problem in business recovery. This stagnation should be temporary and will be governed quite largely by the duration of present and future strikes. Production in steel, automobiles and other major industries will snap back quickly unless strikes are not settled. Lowered output as a result of strikes will add greatly to the shortage of consumer goods, both durable and non-durable. This shortage will tend to prolong the period of prosperity which inevitably must follow a return to and stability of peacetime economy. Business in general will be helped by this temporary stagnation to complete its task of reconversion. While production enterprises have fully reconverted, some of our major industries still have much work to do before a full production tempo can be realized.

The big strikes of 1947 will be of short duration primarily for three reasons:

1. The general public is completely fed up with work stoppages and is beginning to have little or no patience with minority groups who insist on throwing monkey wrenches into the machinery of production and full economic recovery.
2. At last the Government is beginning to discourage strikes and work stoppages instead of setting the stage for an encouragement of these disorders as has been the case in the past. Employers will be more ready to settle controversies than was true a year ago and primarily because they can now pass on the added costs of the manufactured products occasioned by wage increases without waiting for the approval of OPA and other regulatory government bodies.
3. Workers in general are less interested in work stoppages and are less strike-minded. The wage losses which they have sustained have seriously affected the pocketbook nerves of millions of workers throughout the nation. Many of them are at last waking to the fact that they have been led astray by the pied pipers of Moscow or of other deranging influences which would throttle and completely upset not only our national but our home economy. Many of these workers are realizing for the first time that their leaders are not all-wise and omnipotent in labor management.

Since the end of the war, slightly over a year ago, workers in this country have lost a staggering total of 143,800,000 days of work. As a result of this loss in working time they have also been deprived of the even more staggering total of $1,350,000,000 in wages. The actual gain which those who have gone on strike have made as a result of their work stoppage, amounts to only three to five cents per hour or approximately $100,000,000 over that which their employers would have given them on the basis of offers submitted before the strike was called. The indirect results of work stoppages are hard to measure. We have no adequate standards by which we can evaluate these indirect losses.

Technological Readjustment

In effecting business recovery, we must not lose sight of the importance of the problem of technological readjustment. The magnitude of this problem can best be stated by comparing the research development during World War II with similar development during World War I. In 1918 there were two hundred independent research development laboratories maintained in this country by business enterprises. This number did not include those laboratories maintained by the government or by colleges and universities. In 1945, the end of World War II, these research development laboratories under private enterprise totaled 2,250, and the annual payroll going to those engaged in research development work for industry totaled approximately $700,000,000. Do not underestimate your own imagination when you try to comprehend the new products, the new processes and the many new ideas that have been created out of the test tube and the experimental processes of these laboratories. While large corporations have been the primary promoters of these enterprises and the technological benefits will therefore accrue to large scale business, the small business interest must not overlook the effect which these new processes and developments will have upon them. You who represent small business will do well to keep your interest and attention centered upon the kaleidoscopic changes that are destined to take place in production and distribution of all types of goods and commodities as a result of these developments and improvements. It is true that there will be a certain amount of labor displacement resulting from the introduction of labor-saving devices, but the total effect of this displacement upon American labor will tend to be favorable rather than unfavorable. Small segments of our labor population will be adversely affected, but the end result will be an increased demand for skilled labor far beyond the ability of our labor market to meet the demand. Labor leaders, however, like Mr. Lewis and others, should not lose sight of the fact that when the costs of labor become prohibitive in the production of commodities or goods we invariably find one of two things happen — either new processes or new labor-saving machines are developed so that the need for the high cost of labor in large numbers is diminished, and at the same time production is increased; or industry and the consuming public revolts against paying the excessive costs reflected in the product and reconvert to the use of other products or processes less expensive and perhaps far more satisfactory and modern.

Power of Atomic Age

The closing days of the war dropped us into a new age of power — the Atomic Age. Scientists and engineers have not yet coordinated their efforts of linking this new found power to our industrial profits, but the day when that will be done is not far distant. In keeping your attention centered upon technological development and its possible effect upon business and industry, remember that the economic history of this country and Great Britain invariably reveals that whenever there has been an upward surge in the curve of inventions, as was the case in the 1940's, and whenever there has been a simultaneous development or discovery of a new power, something interesting happens. Out of this combination of the ingenious expression of man's mind through invention, and the discovery of new sources, there has invariably been engendered a great industrial expansion. Make no mistake of it; we are on the threshold of such an expansion the like of which neither this country nor the world has ever seen.

Linked with these two interesting developments is a third phenomenon of no mean proportions. We are also in an age of learning, the proportions of which dwarf all previous records of mankind's search for knowledge. As evidence of this age of learning, I point you to what is happening on the campuses of the colleges and universities of this country and remind you that this great search for knowledge, skill and truth has only begun. The peak of it will be reached in three or four years hence. Engineering and business are the two predominating interests of study of the ex-servicemen who make up so large a proportion of this student influx to higher education. The implications for business and industry are clear and any business executive who loses sight of the potential personnel, tried and trained for a definite vocational objective, as a source for recruiting competent personnel for his organization in the days ahead will be losing the chance of his business lifetime.

Inflationary Trends

We cannot complete the consideration of these problems in business recovery without recognizing the influence of inflationary trends. Inflation has been with us for some time and it threatens to continue. Just so long as demands are made by segments of our population for increased wages and increased prices of transferable commodities and services, price rises in the immediate future are inevitable; prices will undoubtedly continue to rise until such time as the consumer does what he did in 1921, goes on a buyer's strike. There is already ample evidence of the consumer's intention to do just that thing. The only solution for preventing a runaway inflation is increased production so that the shortages may be rapidly reduced and that there may be drained off a sizable portion of the cash reserves which consumers have laid aside for the purchase of desirable consumer goods. Business executives need to watch the inflationary trends with great care and particularly to guard against the building up of heavy inventories, lest we experience a repetition of 1921.

Sales Problems

There does not seem at present an immediate need for concern over the problem of sales as a factor in business recovery. Business organizations which have failed, however, to put their sales organization in streamlined order and who have neglected to make a searching analysis of their markets and their present and future conditions may see the day when this lack of action will be regretted. The picture, at present, is most encouraging. Retail sales during the month of December, 1946, will probably exceed ten billion dollars as against four and one-half billion dollars in 1939. Transposing the current month's ten billion dollar sales into 1939 prices and dollar value, gives us a comparative figure for this month of six and one-half billion dollars in contrast to four and one-half billion for 1939. Retail sales for 1946 will run well over one hundred billion dollars. You well know that whatever happens in retail sales also happens in wholesale transactions and what happens in the price structure in the retail field likewise happens in your field.

Time does not permit me to say what I would like to say regarding the problem of housing development. This is one of the most critical issues with which our nation has been faced. Housing represents an appalling governmental bungling of an acute problem, for which there is no excuse. There is no point in our national economy at which we are playing fast and loose with the moral, social and the spiritual welfare of our population to a greater degree than in the housing development. When two, three or four families are compelled to live where only one was intended to live these important national resources are destined to suffer. The public indignation is great; what shall we do about it?

Fiscal Policies

The business recovery of this country will be quite largely conditioned by the manner and the extent to which we address ourselves to handling our fiscal policies and problems. The balancing of the Federal budget is a necessity in our governmental economy. It must be done by cutting expenses, by eliminating unnecessary government functions and services and by scrutinizing with greater businesslike care the financial commitments of local, State and Federal governmental bodies. In the interests of good business and of good government we need to address ourselves to a realistic reorganization of our tax structure. We need to give thought to new techniques of legislative action which will prevent wholesale appropriations of funds which have not yet been collected or created and made available in the Treasury before the appropriations are made. Of course, there are emergencies to be met when such action cannot be anticipated, but we should call a halt, once and for all, in the constantly recurring emergency of deficit spending.

In closing, may I give you, in a word, the general outlook for business as I see it. The coal strike, the continued demand of labor for a higher and higher wage increase, the inflationary spiralling of prices, constant disturbance of labor-management relations and the perplexities growing out of world affairs, all tend to create the setting for a period of uncertainty and of hesitancy of action on the part of the businessman. Too long a continuation of these disturbing forces may well precipitate a brief but rather drastic recession, similar to what we experienced in 1921; we hope we may avoid it, but if it must come, the sooner the better. Such a recession may do much toward shaking down the spongy fiber of our economy and to expedite the reconversion from an inflated wartime economy to a peacetime stabilized economy. Once such a recession has been experienced the stage will be set for a restoration of confidence in business and we may well expect a period of unexcelled prosperity to last for several years, at least for five, probably for six or more years.

America is on the threshold of a great national and international development. She holds in her hands the leadership potentialities whereby she may help materially in directing the destinies of sound world economy. We have a wonderful chance to help the devastated nations of Europe and of Asia recondition and rehabilitate their social, economic and political resources. Doing so from a helpful and instructive attitude divorced absolutely from an imperialistic and domineering attitude, cannot help but result in creating a favorable world opinion toward us.

Your own group and the association you represent cannot help but share in large measure in the prosperity that lies ahead. You have a great future before you. Make the maximum use of it, but be always sure that this is based upon the principle of service first above self.

Two With Buckley on Coast

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—William C. Pike and James Harding Walraven have become associated with Buckley Brothers, 530 West Sixth Street. Mr. Pike was previously with Walston, Hoffman & Goodwin.

The Threat to Independent Business

(Continued from page 3207)

production and a lowering in the level of employment. Monopoly power prevents the full utilization of our productive and human resources. It retards technological progress. It stifles the development of new enterprise.

Let us briefly review the gains made by monopoly during the war years. These gains were mostly made at the expense of competitive enterprise. More than 500,000 small business concerns were eliminated from the market during the war years. The further concentration of control of manufacturing facilities, industrial know-how and financial strength was accentuated by the necessary distribution of prime government war contracts to large concerns. There has been some resurgence of small business in the first postwar year, but there were still some 160,000 fewer businesses operating at the beginning of 1946 than in 1941.

The 250 largest corporations in this country now hold approximately two-thirds of the nation's usable manufacturing facilities. This group alone either owns or is in a position to control facilities equivalent to those of all manufacturing corporations in 1939. Sixty-three large manufacturing corporations have sufficient liquid assets to buy all government-owned manufacturing facilities or to purchase the assets of some 70,000 smaller manufacturing corporations.

How did this come about? To meet the requirements of the Army and Navy for goods of every description the government turned to the most powerful business organizations. This development was unavoidable, not only because these organizations possessed advantages in capital, patents and experience, but also because the Administration quite often drew its personnel for wartime procurement and economic direction from the staffs of the leading business enterprises. It was natural to find a tendency among them to rely heavily upon the great industrial systems with with they were familiar and in which they had confidence. Accordingly, as the government poured billions of dollars into additional production facilities, the big companies tended to get bigger while small companies, despite earnest efforts through sub-contracting arrangements and otherwise, tended to lose ground.

Moreover, the government consciously substituted a policy of controlled economy for the peacetime policy of competition. This was essential, as a temporary measure, because of the huge demands of the war machine and the scarcities in consumer goods which those demands created. Priorities, allocations and price control replaced the competitive struggle for materials and markets. Whole industries were permitted to enter into relations and understandings which would have been illegal but for the special wartime exemptions from antitrust prosecution.

Restoring Free Competition

One of the major obstacles now confronting the Antitrust Division of the Department of Justice in its effort to restore and maintain free, competitive enterprise is the persistence of patterns of thinking fostered by these wartime emergency measures. We are confronted with the task of reconverting a managed economy to a free economy. A transportation industry which enjoyed during the war a license under War Production Board Certificate No. 44 to fix rates and agree on services through rate conferences and bureaus resisted the termination of this license and sought to make it permanent by legislation. Patent pooling arrangements authorized during the war in the petroleum, synthetic rubber and other fields found such favor with elements in industry fearful of vigorous competition in research that great pressure was brought to bear for the prolongation of these pooling devices. Other industries seek to continue the non-competitive habits which were fostered by the war emergency.

What do we need to stop the march of monopoly? There are two basic requirements: one of policy and one of practice. First, we need a coordinated, unified, governmental policy running throughout every agency of the government which deals with business, designed at once to curb monopoly and to lend the full support of the vast resources of our government to aid free, independent, competitive businessmen.

Antitrust policies should guide every government agency administering policies that affect business. For example, government procurement officials should wherever possible award government purchase contracts so as to encourage competitive business. Those who control government lending policies should always be certain that government funds are not used to further or assist the growth of monopoly.

The second great requirement is to apply our policy against monopoly by the regular appropriation of sufficient money to enforce the antitrust laws. The Antitrust Division receives over 650 written complaints each year; over three new complaints each working day. It institutes about 50 cases a year. What becomes of the other 600 complaints? Are they all unfounded? No. We do our best, but the fact remains that we have insufficient funds to investigate adequately the majority of these complaints.

Many businessmen, of course, have a feeling that the United States Government should protect them from monopolies. We are doing what we can. We shall continue to do what we can. But I must be frank. The resources of your government available for antitrust enforcement in any one year since the passage of the Sherman Act in 1890 have been less than the sum of money expended by one corporation to defend one antitrust suit. In the Hartford-Empire case there were eight major defendant corporations. One of these corporations expended approximately $900,000 in the trial of the case in the district court and an estimated $500,000 or more in prosecuting its appeal to the Supreme Court and in the settlement of the final decree. The expenditures of the other seven defendant corporations in that case are not known exactly, but they exceeded $1,000,000. These sums should be viewed in the light of the fact that the entire appropriation of the Antitrust Division for each of the years since its establishment, except for the year 1942, has been less than $2,000,000.

Both the government and the public willingly expend many millions of dollars to conserve the fertility of the soil. No one questions the necessity of protecting our fundamental natural resources. Is it not equally obvious that the fundamental social resource in the American economy—freedom of opportunity—merits as much consideration? If we treasure the American free enterprise system from the same standpoint that we treasure the nation's soil resources, it is at once apparent that neglect in either case can have irreparable consequences.

We are told that we must balance the budget. We must reduce the Federal debt. I agree. But of what use is a balanced budget and a reduced Federal debt if they are accomplished at the cost of losing free enterprise and the American way of life? Such economy would be false economy.

As Attorney General Clark has stated, the effectiveness of antitrust enforcement is in direct proportion to the funds available. The failure to enforce the antitrust laws adequately is much more costly to taxpayers than the cost of an adequate program. For the fiscal years 1940 through 1946 antitrust appropriations totaled $12,030,600. Fines assessed during the same period in suits brought under the antitrust laws totaled $5,902,979.03. Thus, antitrust fines alone amounted to almost half the funds appropriated. It is not possible to estimate in all cases the enormous savings to the consumer resulting from the fact that competition was restored and maintained in many important industries.

But in some instances we do have direct, positive evidence of savings derived from antitrust prosecutions. For example, the direct saving on a single contract in Pittsburgh, because of an antitrust investigation, amounted to 85% of our annual appropriation. As a result of one other major antitrust suit, royalties were reduced in one industry by 50% and the saving to the consumers each year as a result of that action exceeds $4,000,000, or more than twice the annual appropriation for the Antitrust Division.

Antitrust Accomplishments

The accomplishments of the Antitrust Division on a budget of less than $2,000,000 per year provide an effective sample of what could be accomplished if more adequate funds were made available.

I have already mentioned the Hartford-Empire case involving the glass container, or bottle, monopoly and the many millions of dollars the defendants expended in vain efforts to prevent the government from obtaining an effective decree. I am happy to report that they were not successful. As a result of the judgment, housewives do not longer have to depend upon Corning Glass alone for heat-resistant ovenware. Moreover, the defendants who owned patents dominating the industry were ordered to license those patents to any applicant. As a result, today anyone is free to make glassware. Think of it! In this free country, until the government won this case, not one of you could have entered the glass bottle manufacturing industry unless the defendants had given their permission. And for 25 years the permission was never granted to a newcomer. Today the industry is open to all. As a matter of fact, here in Chicago at the present time there is a glass plant which the Court has ordered the Owens-Illinois Glass Company to sell to any applicant at its fair appraised value. Such opportunities should be especially appealing to progressive industrialists.

Another example is the case brought in 1942 against Standard Oil Company of New Jersey. The complaint charged that the Standard Oil group had conspired with I. G. Farben, the great German chemical trust, to restrain trade throughout the world in oil and chemical products. The defendant entered into a consent decree requiring it to issue unrestricted licenses royalty free during the war, and thereafter at reasonable royalties, under several thousand patents covering such important processes as those used in the manufacture of synthetic rubber.

We have recently won a very important legal victory which will considerably strengthen the government's hand in future antitrust actions against monopolies. I refer to the tobacco case decided last spring by the U. S. Supreme Court. The decision of the Supreme Court sustained the convictions of the leading tobacco companies and their principal officers for monopolizing in violation of Section 2 of that Act. The economic objectives of this case were to outlaw the evils of price-fixing in the leaf markets for over a million farmers and to condemn the evils of dictatorship of prices and selling methods of over a million wholesalers and retailers. However, I want to talk to you briefly about the legal principle involved in this case.

As a result of the decision it is now clear that possession of power plus the intent to exclude competitors is illegal under the monopoly section even though the power to exclude is not actually exercised. Some previous Supreme Court decisions had thrown doubt on this principle, which is now settled by unanimous decision. As a result, the Department of Justice need not now be deterred from instituting actions against monopolies merely because monopoly power over the market has not been actually exercised. A defense commonly heard in antitrust cases is that the monopoly position was "thrust upon" an industry but that the power of the monopoly had never actually been exercised against competitors. The tobacco case should eliminate that defense in all future antitrust cases.

These are examples of major antitrust suits each costing the government many hundreds of thousands of dollars to prosecute to a successful conclusion. I contend that the results were well worth the money. But antitrust enforcement is not always costly. We have within the past year been successful in preventing corporate mergers without the necessity of resorting to litigation. Had the Department of Justice not questioned the legality of these mergers, the concentration in the industries involved would have been greatly accelerated. The corporate merger is the classic means of stifling competition and increasing concentration of economic power. The great trusts of 40 and 50 years ago which evoked Theodore Roosevelt's trust-busting campaign were formed through mergers.

Influence of Financial Groups and Investment Bankers

In considering the monopoly problems raised by the increasing number of mergers, we must not overlook the influence of financial groups and investment bankers on competition in American industry. These bankers are primarily interested in the sale of securities. These sales are their principal source of income. Consequently, it is natural for them to seek every opportunity to stimulate new security issues. Since these bankers also act as financial advisers to the companies which issue the securities they sell, they are in a strategic and powerful position to create the business they seek.

Mergers and consolidations are among the most prolific sources of new security issues. Two or three companies, each of them too small or too closely held to be a source of security-selling business, when combined can become the base for the flotation of a substantial stock or bond issue. In a great many instances investment bankers have been most instrumental in combining two or more competitors in an industry into a single company.

The financial advantage which accrues to the investment banker from frequent mergers is not accompanied by the advantage of lower prices or better products for the consumer. In many instances there is no technological gain as a result of the combination of the various companies. In some cases the elimination of competition among these companies has retarded technological development.

If given adequate funds, we propose to examine every corporate merger of significance. Where these mergers appear to eliminate competition, we propose to warn the corporations involved that if they take further steps to effectuate the merger we shall file suit under the antitrust laws.

What Businessmen Can Do

I now come to the question, what can businessmen do about monopoly? We in the Antitrust Division are helpless without your support. That is as it should be in a democratic society. No government can or should adopt any long-term policy that does not have the support of the majority of the voters.

But if you, the people, are to succeed in your fight against monopoly you must insist upon making your voice heard.

There is nothing partisan about an anti-monopoly policy. Ever since the passage of the Sherman Act in 1890 both political parties have professed adherence to its basic principles. Practically every political platform of both the major parties since 1890 has contained a declaration for strict enforcement of the antitrust laws. This has been true of the Republican party as well as the Democratic party. For example, way back in 1900, the Republican platform declared: "We condemn all conspiracies and combinations intended to restrict business, to create monopolies, to limit production, or to control prices and favor such legislation as will effectively restrain and prevent all such abuses, protect and promote competition, and secure the rights of producers, laborers and all who are engaged in industry and commerce."

The preceding year President McKinley in his annual message to Congress had said: "It is universally conceded that combinations which engross or control the market of any particular kind of merchandise . . . by suppressing natural and ordinary competition, whereby prices are unduly enhanced to the general consumer, are obnoxious not only to the common law but also to the public welfare. . . . Whatever power the Congress possesses over this most important subject should be promptly ascertained and asserted."

Notwithstanding President McKinley's warning, the concern of both the Republican and Democratic platforms of 1900 for free enterprise, only three antitrust prosecutions were started during the period when McKinley was President—one against a local livestock association and the other two against coal associations of no great importance. Yet it has been estimated that between Jan. 1, 1898, and Jan. 1, 1904, 236 industrial combinations were launched with an aggregate capitalization of $6,000,000,000.

Forty years later, in their 1944 campaign platforms, we find the Republican party still pledging antitrust enforcement on the grounds that "monopolies and monopolistic prices threaten the very existence of the free enterprise system."

I think this reference to history has its importance today. For more than 40 years each political party rendered continuous homage to the prnciples of the Sherman Act, and yet in practical economic effect during that period the law was a dead letter. I think that today we are paying the price of our failure to make effective the principles of the Sherman Act. Someone has said that the only thing that history has proved is that we don't learn anything from history. I surely hope in this case, at least, that is wrong.

The real source of the threat to free enterprise, about which the Republican leaders are so concerned, lies in monopolistic control over our great industries. If we really believe what we constantly say about the necessity of preserving free enterprise, then the time to act on those affirmations of belief is now. The fight to maintain free, competitive enterprise should transcend purely partisan or political considerations. Now is the time when you must demand and require that our Government continue to act decisively and effectively to prevent the further spread of concentration of economic power. You must demand that the channels of free, competitive enterprise be kept open for small business.

In these times of strife between labor and capital, we hear insistent demands for curbs upon the power and activities of labor unions. I recognize, as many must, that certain labor union abuses have created a serious problem. Some new legislation may be necessary to assist in solving the problem. But unless we decide to appropriate sufficient funds to enforce the antitrust laws against business monopoly, we should not expect to impose new restraints upon labor. The twin demands, "hands off business" and "curb labor" have long been the heart of the anti-democratic program of those who favor the corporate state. To say that labor unions shall be restrained while the march of monopoly is allowed to continue will result in the abandonment of industrial democracy. If industrial democracy is permitted to perish our proud heritage of political freedom cannot survive.

The future of enterprise is in many respects the major economic issue of our age. In most of the world today we are witnessing the disappearance of free enterprise in the aftermath of war and economic crisis. Because this country is the industrial leader of the world, because its institutions are still free, and because its natural and human resources are vigorous, we still have the luxury of choice between economic freedom and a system of control. It is sheer delusion to believe that we can tolerate regimentation by monopoly without in time necessitating regimentation by government. If we forsake the principles upon which economic freedom rests by failing to apply them, freedom will forsake us. There is no question as to which way freedom lies. The danger is that in the affairs of men it is always later than we think.

Colmer Committee Sees No Need For Depression

(Continued from page 3221)

tive studies into the industrial, agricultural and commercial structure of the United States. It also visited Europe to study economic conditions and international trade.

Depression Held Unnecessary

"Considering everything," the report emphasized, "the Committee feels that there is no necessity for either a depression or recession . . . Loose talk of depressions and business recessions is unjustified and serves no good purpose."

Although finding the country in a basically sound economic status, the Committee warned that the causes of low production in many industries must be erased and "another wage-price spiral avoided" if prosperous conditions are to continue.

"A start has been made toward the goal of sustained high employment," the report stated. "The task ahead is to develop economic conditions which will encourage stability of productive employment at a high level."

The Committee cautioned, however, that the government "cannot and should not take full responsibility for maintaining economic stability or full employment."

"Such a government," the report added, "could neither accomplish its purpose nor remain a democracy. We were able to mobilize our economy for war only by surrending temporarily the basic democratic freedoms which we were fighting the war to preserve.

"We should not be misled by those who urge that we can equally well 'mobilize' for full employment in peacetime. To do so would be to accept totalitarianism—which we fought to prevent having imposed upon us."

Budget Surplus Stressed

The Committee, vigorously advocating a balanced Federal budget, recommended that expenditures for the fiscal year ending June 30, 1948, be reduced to 30 billion dollars. This, the group added, should make possible the creation of a "substantial surplus," and would also allow for "some reduction" in Federal taxes.

Housing Recommendations

Discussing housing difficulties, the Committee recommended greater emphasis on remodeling and reconversion of existing structures which "has proved to be the most rapid and cheapest method of getting needed housing in terms of money and materials!"

The group further proposed that "a far larger quota" of low cost rental units should be pushed. It is also highly important, the committee said, that the building industry improve its methods, so that current high costs can be reduced and greater home construction volume result.

Trade Barriers Hamper World Peace

In the field of foreign economic policy the Committeee supported a reduction of trade barriers to "assist greatly in the establishment of a peaceful world order" by substituting "economic cooperation for economic warfare." At the same time the report pointed out that "high levels of output and employment at home . . . are an essential for an expanded world trade."

The Committee proposed that the general powers of OPA be ended next Jan. 31; that the Second War Powers Act be allowed to lapse next March 31, subject to the necessity for new legislation, granting narrowly specified powers to be determined by Congress, to protect certain short commodities and export and import controls. Continuation of general fiscal and monetary controls was advocated as the best safeguard against inflationary pressures and as "more effective in the long run than any administrative controls."

The Committee suggested "the continuation of a Presidential agency"—such as the Office of War Mobilization and Reconversion—to act as "a sort of over-all general staff to coordinate the formulation and execution of policy."

Other leading committee recommendations included proposals that the Surplus Property Act of 1944 be simplified to speed disposal of war goods; that unemployment compensation coverage be broadened; that old-age insurance be extended to cover about 12 million persons now excluded; that public construction be limited to new projects of immediate necessity, and that plans be prepared for work which could be expanded as private building programs slacken.

This is the final report of the Colmer Committeee, but a supplement relating to European economic reconstruction will be released before the end of the year. As was the case with the previous ten reports, this is a unanimous report of the bi-partisan committee.

The Committee does not recommend that it be continued in the next Congress but strongly urges that a permanent committee on economic policy be established to continue the type of work of the special committee, or that the funcions of the Joint Committee on the Economic Report of the President be broadened to cover all phases of economic policy. The prime purpose of the permanent committee would be to assist in planning action designed to reduce the wide cyclical swings of business which the Committeee termed one of the most important economic problems now facing the country.

Besides Chairman Colmer, the Committee included Jere Cooper (D-Tenn.), Francis E. Walter (D-Pa.), Orville Zimmerman (D-Mo.), Jerry Voorhis (D-Cal.), John R. Murdock (D-Ariz.), Walter A. Lynch (D-N. Y.), Thomas J. O'Brien (D-Ill.), John E. Fogarty (D-R. I.), Eugene Worley (D-Tex.), Charles L. Gifford (R-Mass.), Richard J. Welch (R-Cal.), Charles A. Wolverton (R-N. J.), Clifford R. Hope (R-Kan.), Jesse P. Wolcott (R-Mich.), Jay LeFevre (R-N. Y.), and Sid Simpson (R-Ill.).

Additional conclusions or recommendations of the Committee included the following:

Production: "The upward pressure on prices has been increased by sharp increases in wage rates. Low production in many industries caused by work stoppages, delays in deliveries, high turnover and other factors have prevented the output per worker from off-setting the effects of these wage increases. The problems which the economy ever faces can only be solved by increased production per man-hour, which would both reduce costs and increase supplies."

Contract Termination: "The objectives set by Congress . . . have been reached. One year after V-J Day the contract settlement and plant clearance jobs have been practically completed."

Surplus Property: "Progress in the disposal of war surpluses has been disappointing . . . Congress must accept the full responsibility for the unsound provisions embodied in surplus property disposal legislation, and in great part for the delays caused by the priorities and preferences granted under it."

The Committee, declaring that the need is for speed in disposing of the surpluses, advocated that the program administrator be given "very broad discretionary latitude" and "sympathetic help" so that the job, now less than one-third done, can be accomplished more swiftly.

Employment: "The Seventy-ninth Congress passed legislation calculated to provide a better balanced governmental policy with respect to labor relations. This bill was vetoed by the President. This Committee did not analyze the wisdom of this specific legislation on this subject but feels with the President that corrective legislation is needed and recommends that prompt action be taken by the appropriate congressional committeees so that sound, constructive—not punitive—legislation may result . . .

"One of the important measures to minimize an economic decline is unemployment compensation. There is now available in State unemployment compensation funds about seven billion dollars. . . . Many states have recently liberalized their benefits both in amount and duration. The Committee recommends that the other States take similar action and that the coverage be extended, especially to employees of small firms."

Public Works: Machinery should be set up to coordinate the construction policies of Federal, state and local governments and private industry. Good progress has been made in the preparation of drawings and specifications. The plans are completed for projects amounting to slightly less than two billion dollars. Should there be a recession in the next year or two, however, the volume of planning, now ready, or assured of completion will be far short of what is needed. The Committee, therefore, recommends that the balance of the one hundred fifty million dollars originally recommended be appropriated for this purpose.

Federal Budget: "It forebodes danger for the future if under the present very favorable conditions of high income and high tax rates, the fiscal affairs of the Government cannot be handled in such a way that the budget can be balanced. The Committee feels that expenditures for the fiscal year ending June 30, 1948, can be reduced to thirty billion dollars without interfering with national defense and the normal functions of the Government, and that a further substantial reduction can be made during the following year."

Taxes: "It is necessary to develop a tax system which will raise the necessary revenue and still distribute the tax burden in a manner that will provide adequate incentives for venture capital, creative effort and business growth and also permit expansion in consumer demand. The personal income tax should be regarded as the main reliance for Federal tax revenues and . . . should be continued on a broad base."

Finance: Bond saving and buying campaigns should be "vigorously promoted" to counteract inflationary forces.

Agriculture: "The Committee reiterates the recommendations of its previous report with respect to developing the maximum degree of freedom in international exchange of goods and services and of improving public service to agriculture. . . . Wide publicity regarding the present situation in land values and the consequences of previous similar developments should be used to induce farmers not to extend themselves unwisely."

Two Groups Offer Bonds and Stock of Kansas City Power & Light

Two underwriting syndicates, one headed by Halsey, Stuart & Co., Inc., and the other by The First Boston Corp. placed on the market Dec. 13 senior securities of the company amounting to $46,-000,000 in par value. Consisting of $36,000,000 of 30-year first mortgage bonds and 100,000 shares ($100 par) 3.80% cumulative preferred stock, the offerings will accomplish a refinancing operation, intended to reduce bond interest from 3¾% to 2¾% and to retire 40,000 shares of $6 dividend series B first preferred stock.

The bonds were offered by a syndicate headed by Halsey, Stuart & Co. Inc. at 101.43 to yield 2.68% and the preferred stock by the First Boston Corp. and associates at $102.70 a share to yield 3.70%.

The bonds were awarded to the bankers on a bid of 100.889 and the preferred stock on a bid of 100.91.

Proceeds from the sale of the new bonds and from the sale of 100,000 shares of 3.80% cumulative preferred stock will be used to redeem $38,000,000 of outstanding first mortgage bonds, 3¾% Series due 1966 and 40,000 shares of the company's outstanding first preferred stock, Series B.

Concurrently with the sale of the new bonds and new preferred stock, the company proposes to borrow an aggregate of $4,000,000 against its serial notes from a group of commercial banking institutions.

After completion of the new financing, capitalization of the company will consist of $36,000,000 of first mortgage bonds, $4,000,000 notes, 100,000 shares of cumulative preferred stock and 525,000 shares of no par common stock.

A Missouri corporation, Kansas City Power & Light Co. was formed in 1922 through the consolidation of two predecessor companies. The company generates and sells electric energy, and to a lesser extent distributes gas, heat and water. Electric energy is distributed in an area in Missouri and Kansas, including Kansas City, Missouri, and in northern Iowa. Gas is distributed only in the company's Iowa service territory.

For the eight months ended Aug. 31, 1946, approximately 91.85% of the gross operating revenues of the company were derived from its electric business, approximately 6.09% from its gas business and the balance from its heating and water business. Total operating revenues for the eight months were $15,959,735 and gross income was $4,106,007. For the twelve months ended Aug. 31, 1946 total operating revenues were $23,846,592 and gross income was $5,615,087.

Kuhn Loeb & Co Places Equip. Issue Privately

General American Transportation Corp. announced Dec. 18 the sale of $8,000,000 of equipment trust certificates, Series 41, to a small group of institutions through Kuhn, Loeb & Co. The certificates will mature serially in equal quarterly installments to and including Dec. 16, 1966. Maturities to and including Dec. 16, 1955, bear dividends at the rate of 1¾%, and the other maturities 2¾%. The equipment covered by the trust consists of 1,445 freight cars, estimated to cost $8,900,000.

J. J. Cronin Now With Shearson, Hammill Co.

Shearson, Hammill & Co., 14 Wall Street, New York City, New York Stock Exchange members, announce that John J. Cronin, Jr., recently resigned from Tucker, Anthony & Co., has become associated with the firm. Mr. Cronin, prior to his war service as a Navy Commander, was associated with L. F. Rothschild & Co.

Two With Marxer & Co.

(Special to THE FINANCIAL CHRONICLE)

DETROIT, MICH.—Lorne L. Clemens and Calvin R. Vogt have become affiliated with Marxer & Company, Penobscot Building, members of the Detroit Stock Exchange.

Walter F. Norris Is With Harris, Upham & Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Walter F. Norris has become associated with Harris, Upham & Co., 523 West Sixth Street.

Municipal News and Notes

The performance of the municipal bond market in the past fortnight, particularly in the retailing of the singularly large emissions offered in that period, was of such an impressive nature as to convince even the most pessimistic that the market for tax-exempts has far from disappeared. In practically every instance, underwriters were able to achieve marked success in the distribution of their offerings, with the results in some cases, notably the $46,000,000 Pennsylvania Turnpike Commission issue, being nothing less than spectacular.

The turnpike loan, awarded on Tuesday to an investment banking group headed by Drexel & Co., B. J. Van Ingen & Co., Inc., and Blyth & Co., Inc., proved to be one of the fastest movers in a long time. Re-offered at a price of 102.50, affording a yield of about 2.38% to maturity, the bonds were eagerly sought after by investors, with the result that the underwriters announced late on the day of the award that the issue was all sold and the syndicate books closed.

A feature of the operation, the largest revenue undertaking in about a year, was the appearance of three bidding groups in the competition at the sale. This was noteworthy considering the size of the project alone, and in light of the fact that, with the exception already noted, the municipal market has been considerably less than dynamic for many months.

The winning Drexel account bid of 100.9399 for 2½s, incidentally, materially bettered terms specified by the also rans, both of which specified a 2.60% coupon. A group headed by Shields & Co., and Alex. Brown & Sons, was second in the running, naming a price of 100.70, while the final offer of 100.15 was entered in behalf of Kuhn, Loeb & Co., Glore, Forgan & Co., and Lazard Freres & Co., and associates.

Proceeds of the financing will be employed by the Commission in the redemption of $42,300,000 of outstanding 3¾s and for other purposes. While the outstanding bonds are not redeemable until Aug. 1, 1947, holders may present them for immediate payment at the full redemption price plus accrued interest to the call date.

The new issue of $46,000,000 2½s has a maturity date of 1976, and are subject to optional redemption, in whole or in part, not earlier than Dec. 1, 1951.

The highly successful turnpike financing was preceded by a number of equally impressive operations, all of which served to generate considerable enthusiasm among the municipal fraternity. Mention should be made, for example, of the excellent results which attended such previous ventures as those of the Chicago Sanitary District and Los Angeles School Districts, both of which followed in the wake of the Baltimore success.

The Chicago issue, awarded to a syndicate headed by Halsey, Stuart & Co., Inc., and Harriman Ripley & Co., Inc., proved exceedingly popular with investors, as indicated in the fact that more than 85% of the issue had been placed by the syndicate within three hours of the formal offering.

The bonds, due in 1966 and callable serially from 1949 to 1965, were scaled to yield from 1% to 2% for the 1949-1962 optional maturities; at a dollar price of 99.75 for 1963-1964, and 99.50 for both the 1965 and the non-optional 1966 maturity. This level, incidentally, contrasts with the 0.55% to 1.25% scale at which a district issue of comparable maturity and optional dates was offered last March.

A feature of the current financing, and one that has been in increasing evidence lately, was the closeness of bidding for the loan. Thus the successful bid of 100.155 for 2s, or a net cost of 1.9918%, provided a cover of only 7.1 cents per bond over the second high tender of 100.1479 for 2s.

No less successful than the Chicago District undertaking was the $13,500,000 Los Angeles School District financing, which was handled by an account headed by Harriman Ripley & Co., Inc., and Halsey, Stuart & Co. Inc.

Here again the underwriters established a price scale which proved irresitible to portfolio managers and the results more than justified their decision. True enough, the yields were considerably more generous than those available on both comparable and even less favorable credits.

However, the account managers obviously and wisely decided to acknowledge the unwillingness of buyers to pay no more than passing interest to list quotations. In short, they were more interested in distributing their wares, rather than to acquire a gilt-edged inventory.

Right in step with the tempo established by its larger counterparts were the results obtained by the underwriters of the $1,850,000 Euclid City School District, Ohio, 2¾% bonds, due Dec. 1, 1948-1970. This issue literally went out the window, a result the more spectacular in view of the fact that only one bid was received by the district.

The offer, a price of 100.25, was made by a syndicate managed by McDonald & Co., of Cleveland, which re-offered the bonds to yield from 1% to 2.75% and immediately discovered that they had acquired an exceptionally fast-moving piece of business.

Tripp & Co. Compare Revenue Bond Data

A valuable and greatly needed addition to the altogether too scarce centralized reference material on the subject of public revenue bonds has just been published by Tripp & Co., 40 Wall St., New York City. Labeled a "Handbook of Public Revenue Bonds—Part 1—Highway and Toll Bridge Bonds," the publication presents a detailed case history, including statistical data, of 33 major revenue bond projects with outstanding indebtedness of close to $500,000,000.

Needless to say, the publication should prove of inestimable value dealers and investors, not to mention public officials, as it treats in detail a form of financing which bids fair to assume increasing importance.

In order to keep the subject mater current, supplements devoted to large scale new projects and refunding operations are expected to be issued.

Necessarily, publication of the booklet entailed considerable expense and it is being offered by Tripp & Co., at a price of $7.50 per single copy and additional copies may be obtained at $5 each.

With Merrill Lynch

(Special to THE FINANCIAL CHRONICLE)

CHARLOTTE, N. C.—Jack L. Bruckner and W. Johnston King have become affiliated with Merrill Lynch, Pierce, Fenner & Beane, Liberty Life Building.

Capital Goods for Consumers

(Continued from page 3214)

household goods such as furniture, floor coverings, refrigerators, washing machines, sewing machines, cooking equipment, portable heating equipment and miscellaneous electrical appliances other than radios. Transportation equipment ranked second, although it included both automobiles and parts, accessories and tires bought separately from the cars themselves. Almost equal in size were the other two groups—jewelry and watches and pianos, radios and other musical instruments. In the aggregate these four groups amounted to 22.8 billion dollars in 1940 and to 25.4 billion deflated dollars or 32.4 billion current dollars in 1943.

Now one can well say many things about these huge pools of consumer capital. I shall not try to cover them all. I shall merely pull together a few thoughts they bring to mind that seem to me appropriate in a series of meetings concerned with the influence of consumer credit, and more particularly of instalment credit, upon the economy. Because our allotted time is short, I shall have to risk sounding a bit dogmatic in order to offer a maximum of conclusion and a minimum of supporting evidence. For the supporting argument I shall have to refer you to the longer study I hope to have ready for publication shortly.

First, then, I feel that we have given grossly inadequate attention to this accumulation of consumer capital as a factor determining the real income — the flow of satisfactions — consumers derive from the economy each year. Our statistics of production, income, expenditures, and the like, come from records of monetary transactions in the markets. Although in theory we know better, in practice we have tended to be satisfied with records of amounts manufactured and distributed as measures of the benefits accruing to consumers from the production of durables. In fact, however, the amount of, say, transportation, refrigeration or radio entertainment consumers derive from any one year's output of the necessary equipment represents a small percentage of the service they obtain from the entire stock available to them. This is true even in years of large production. The size and distribution of the entire stock, not the addition made to it during any one year, determine the level of living consumers attain in these areas.

Second, there is some reason to believe that such factors as income and instalment credit have less influence upon output and consumer purchases of durables in any year than does the size of the accumulated stock. The relationships among these various factors remain almost entirely unexplored. In the absence of adequate statistical research, one must therefore fall back upon informed guesses that make due allowances for the existent stock. Thus is seems reasonable to suppose that the standard of living to which consumers aspire, in so far as durable goods are concerned, is reflected in the stock they accumulate and maintain. The size of that stock in turn reflects judgments concerning amounts and uses of income extending over periods of several years. Within any one year, a high level of income permits additions to the stock without proportionate increases in the immediate flow of satisfactions the stock affords. Similarly, in a year of low income the stock makes possible a retrenchment of expenditure without a proportionate reduction in the flow of satisfactions. The great violence of fluctuations in the production of durables can undoubtedly be traced in considerable part to these circumstances. To what extent these fluctuations are a cause and to what extent a consequence of the business cycle, I must leave to the determination of cycle theorists.

Third, during the period when the stock of durables is being built up, the rate of production is a combination of the rate of expansion in the stock and the rate of replacement of the existent stock. A rapid rate of accumulation and a sudden transition to replacement demand, necessarily entail a shock to the producing industries and to the economy as a whole. Should this conincide with a shift by consumers from increasing their stock to drawing upon it as an offset to reductions of income, the shock may be very severe indeed.

In mathematical theory, given the amount of stock of any durable the economy wants to maintain and the life span of the goods, industry could readily establish a rate of production equivalent to the eventual rate of replacement in a saturated and stable market. By operating at that rate from the outset, it could achieve a smooth transition from the growing to the saturated market. In return it would have to pay the price of taking whatever number of years the formula required to achieve the desired stock.

In practice, of course, all this is just a dream. Who in 1900 or 1910 could have computed the number, variety and distribution of automobiles American consumers would want in 1920 or 1930? How nearly could he have come to estimating the life span of the cars to be manufactured years later? For that matter, even now when we know so much about the automobile and the social changes it has wrought, who can confidently make such predictions for 1950? Who can make similar prophecies for the multitude of durables other than automobiles?

Fourth, regulation of instalment terms in the sale of durables is a very weak instrument for the control of these fluctuations. Effective elimination of these fluctuations means making some consumers wait, possibly for years, to get the durables they want and rationing what is available among insistent claimants. It means cutting the top off booms in production and allocating restricted output among individual producers. It entails finding effective ways to stimulate producers and consumers when they fear the future. Whether the people of this country will in fact accept such controls, I venture to doubt in the light of their recent rebellion against wartime controls. Whether, even if the people prove amenable, the government has effective instruments for the purpose, I venture to doubt in the light of some years of experience in Washington. Certainly, control over instalment terms alone cannot even begin to do the job.

Fifth, care must be taken to differentiate the effects of instalment credit itself from those due to the nature of durable goods and to the fact that consumers must accumulate a stock of such goods in order to enjoy the satisfactions they provide. It seems to me that instalment buying as such has one principal effect. As compared with so-called cash sales it advances in time the sequence of steps through which the stock of durables is produced, distributed and accumulated. The cash buyer withholds expenditures until he has accumulated the price, which he then spends in a lump; whereas the instalment buyer borrows his lump price, spends it immediately, then withholds expenditures while he pays the debt. Both plans involve an alternation of lump expenditures with periods of saving or withholding. The essential difference between them is that goods sold on instalments move through the successive phases of their long cycle of production, distribution and consumption a few months ahead of the goods sold for cash.

We do not have time here to go through the intricate analysis necessary to determine the probable influence upon economic fluctuations of this and other differences between cash and instalment buying. I must content myself with saying somewhat dogmatically that in my opinion the effects of instalment buying as such are by no means so simple and direct as is sometimes assumed; that differences in the effects of instalment buying and cash buying of durables are less than is sometimes assumed; that analysts of this problem are not always as careful as they should be to differentiate between periods when the instalment system is being built up or expanded to new areas and those in which it has become mature; and that in a mature instalment system fluctuations in instalment purchases are more likely to reflect than to cause the business cycle.

Sixth, it is necessary to avoid confusing the effects of the factors we have considered, i. e., durability, the accumulation of a large stock and instalment buying, with the effects of monetary policies that result in additions to or deductions from the flow of purchasing power in the economic system. Instalment buying can take place on a large scale without the creation of large new amounts of money. Correspondingly, large cash buying of durables may merely reflect an inflation of incomes by the injection of new purchasing power at some other point in the system. Direct control over instalment buying, even if it be more effective than anything modelled on Regulation W is ever likely to be, will not control the real inflationary and deflationary forces involved. It is more likely to be simply a system of rationing some part of the purchasing power the monetary authorities choose to feed into or keep in the system. Really effective control over the inflationary and deflationary effects of credit must be imposed at other levels and in other areas of the economy.

Perhaps I should add that if, despite all the objections that have been expressed against it, some sor of control is to be put specifically upon the credit flowing to consumers under the instalment system, it would be well to impose it somewhat earlier in the proceedings than at the point of final sale to consumers. Most of the value embodied in durables has been accumulated before the consumer sees them. If he buys on instalments, the credit he receives may be not a net addition to the credit structure but a mere offset to credit granted producers and distributors earlier in the chain. Imposing a check that operates only after goods have been manufactured and brought to market is clumsy and of uncertain effect at best. If it also fails to stop inflationary injections of credit at the points where they are made, it must become intolerable.

Seventh, an unsolved problem concerning durables is the extent to which they have introduced a more or less permanent element of instability because of the so-called cycle of replacement demand. It is sometimes said that great fluctuations from year to year in the output of these goods will be reflected in the future as goods wear out and are replaced. The conclusion holds in any precise form only if durables have a definite and unvarying life in use. Exprience during the war, when so many durables were cut out of production entirely but the stock in use dropped surprisingly little, precludes acceptance of any such rigid premise. The period of use can be stretched substantially if necessary. Similarly it can be cut short at any time. It seems reasonable to believe that variations in the choices made by individuals as to replacement dates will in time eliminate any replacement cycle originally present.

Eighth and last, I should like to comment on the relations between what has been well called the life cycle of the family and its need for taking possession of durables at particular times. These matters need much more detailed study than they have thus far received. The nature and strength of the pressures that make so many consumers willing to pay carrying charges or price differentials for immediate delivery and the nature and weight of the sacrifices they must make if they postpone consumption while they save to pay cash or if they simply do without durables, need further analysis. Only if we understand these can we understand the social significance of instalment buying, the degree of rationaility shown by consumers in using the instalment system, and the weight of the burden imposed upon them when they are deprived of the instalment privilege. One may assume that the need for many (perhaps most) durables becomes acute as the consumer and his family reach particular points in their life cycles. Waiting to get the goods later may entail a severe sacrifice. Conceivably it can mean sacrificing the satisfaction for all time. It can mean sacrificing output for all time, too. We hear much of deferred demand nowadays. Much of it is not deferred but disappeared. A family can't go back to where it was. Even if it can defer its demand for some good, it does not pick up where it left off. It has simply not consumed something over a period of months or years, and the production that would have permitted consumption during that period is gone for good.

Profits Without Responsibility: An Answer to Mr. Nathan

(Continued from page 3224)

more is produced more is available for consumption. In the absence of any general increase in production, a second round of wage increases promises to price us out of the market, domestic and foreign.

Labor Productivity Unfavorable

The reports from industry concerning labor productivity are for the most part unfavorable. The National Industrial Conference Board findings, those by Charles R. Walker in "Fortune" Magazine, the Report in "Mill and Factory" Magazine and the study issued by the United States Bureau of Labor Statistics all serve to show a marked decline in general productivity. Even labor union executives acknowledge the need for revising the trend toward lower productivity.

American Federation of Labor President William Green, writing in Labor's Monthly Survey, recently states: "Wage-earners can best stabilize their wage dollars by helping to increase volume of production." The survey also stated that productivity in war plants increased 61% in less than four years during the war, but that productivity in civilian industries rose less than 2%. Even the latter small gain has undoubtedly been more than wiped out in recent months.

Pegging Wages on Falling Production

This attempt to peg wages on a falling standard of production is no cure for the evil, nor will it provide the sustained purchasing power required to prevent a fatal boom and bust. The CIO in seeking to force this new increase in wages in the mass production industries is exaggerating the possibilities of all industry; is discouraging the application of the remedy to the evil.

We have further to take into account the use by CIO in its findings of an outworn yardstick of efficiency, one that accounts alone for output per man-hour. Such a yardstick makes it impossible fairly to distinguish between what constitutes upkeep and profits. The inadequacy of this yardstick was discussed at the recent Washington Conference sponsored by the Bureau of Labor Statistics and the Bureau of the Budget. It was pointed out that output per man-hour fails to account for such important variables as capital investment and horsepower.

In other words, industry as a whole lacks an adequate measure of capital-labor efficiency; lacks a representative measure of cost, a price-floor or point of reference for the adjustment of wages, mortgage-interest-rates, values, taxes, insurance, dividends to actual earning power. The means for readjustment was lacking after the 1929 depression. In the absence of any definite tie-up between the amount of wage increase and the percentage of increase in efficiency, it is lacking today. By placing a premium on inefficiency and waste the CIO program is an invitation to bankruptcy.

In the absence of an adequate measure of capital-labor efficiency, industry is powerless to get rid of wasteful overhead and bring efficient plants into full-time operation; is powerless to substitute advance by stages for advance by surges; is powerless to make any clear cut distinction between efficient and inefficient plants.

The CIO claims that in its negotiations, the unions are entitled to have the fact of a business, its profits, its dividends, its price schedules and how they are formulated, and like information, before there can be a determination of wages.

This would give labor a sort of partnership in business and industry, with labor sharing through a maximum wage in the profits of industry before the goods are sold or the cost of production is met. CIO is, in so many words, demanding the right to share profits without assuming any responsibility for the balancing of supply and demand.

You and I may agree that labor is entitled to share in the results of increased production, in the profits of industry, but the free enterprise cannot hope to carry on by continuing to pay out profits to capital or labor before they are realized; through continuing to employ a yardstick of capital-labor efficiency suited to an agricultural society.

We can only hope to make increased production a point, a partnership undertaking as capital and labor accept joint responsibility for upkeep through accepting a bare wage return in place of maximum wages and profits; through their agreeing to share income on a pre-determined basis; through their agreeing to delay the division of income until it is realized.

Two With Walters Firm

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Paul C. Buetow and Frank S. Fuhr have become associated with William Walters Securities Co., 3923 West Sixth Street.

Attacks Federal Reserve Credit And Margin Controls

(Continued from page 3211)

average worker just cannot afford a charge account. If he is to obtain these goods at all he must obtain them on the instalment plan. The average citizens have always made up the great consumer market of America. They do today. Yet they are the very people the Federal Reserve Board regulations are damaging, and in damaging that group, vital injuries are inflicted upon the entire American economy. The Federal Reserve Board regulations, which give the "well-to-do" with their charge accounts the opportunity to buy whatever they need on their own terms, while denying the worker families of the country the opportunity to buy at all, is contrary to American principles of fairness. This is a discrimination which either the Federal Reserve Board itself should take action to eliminate, or which for the good of the economy of the country and the comfort of the average wage earner must be made the subject of definite action by the new Congress.

Margin Ban Ill-Advised

Another regulation of the Federal Reserve Board which continuously hampers reconversion is that which bars the purchase of listed stocks on margin. As early as November, 1945 I made a protest to Chairman Marriner Eccles of the Federal Reserve Board against the 100% margin regulation. The protest was justified at the time. Subsequent events and conditions have substantiated that protest and have made it clear that Eccles' refusal to act at that time was ill-advised. The Board continues to claim that this regulation is designed to avoid speculation. The fact of the matter is that while the regulation bars the purchase of listed stocks on margin, it condones the purchase of stocks which are known throughout the country to be almost wholly speculative. The truth of that assertion is found in the fact that the regulation does not bar buying on margin over-the-counter securities through banks. Such provisions represent a gross discrimination as between listed and unlisted securities. There is general agreement that this regulation of the Federal Reserve Board actually circumvents the law under which it was issued. Congress did not intend that under its legislative action a regulation of this kind should be issued by the Federal Reserve Board. The law itself gives the Federal Reserve Board authority to change margins only at such time as there is excessive use of credit in the stock market.

Damaging Control

Those who are primarily responsible for the health of our national economy see in this 100% margin regulation a control just as damaging to the country's economy as those OPA controls which had the country bound down. It is not desirable to allow complete credit in stock purchases or in other words to encourage shoe-string transactions. And that is not asked. But the 100% margin should be reduced substantially to allow for the wise free flow of investment funds which are a vital part of the life blood of the American economic system.

Fears Market Debacle

If this 100% margin regulation is allowed to stand indefinitely the effect will be even a more serious disorder in the market than was experienced a few weeks ago. Logic should require that such a control as the 100% margin regulation should definitely be included in that list of hampering controls which are being eliminated or revised to give the country a chance for expansion, production, and prosperity. If the Federal Reserve Board itself continues to refuse to recognize the damaging effect of the 100% margin regulation then this too is one of those vital subjects which must be given early attention by the new Congress.

Protest Credit Prohibition on Listed Securities

(Continued from page 3211)

ing, listed securities has caused postponement or abandonment of productive enterprises. Continuance of the policy is not only unjust to the individual investor, but assures the existing distortion in the economy will be followed by a recession or a depression. This in turn would increase the burden of our enormous public debt and might result in that very inflation which is the purported reason for prohibiting the use of credit for purchasing listed securities.

"Increased production of goods, together with a Federal budget balanced at a level within our reasonable capacity to pay, are the only reliable safeguards against inflation. Both of these safeguards are impaired by current restrictions imposed by the Federal Reserve Board. Hence, in the interest of high employment and a dynamic economy, and as an aid in the fight against inflation and deflation, the Governors of the Association of Stock Exchange Firms unanimously and urgently recommend that the Federal Reserve Board recognize that events have proved the unwisdom of existing restrictions on the use of credit for purchasing listed securities, and that such restrictions be immediately removed.

"The validity of this recommendation is supported by the following specific considerations:

"A. To a large extent free credit balances at present in the hands of brokers are owned by large investors, who usually purchase for cash. Investors with average and small accounts frequently utilize credit as a legitimate and valuable instrumentality for improving their financial positions, and under existing restrictions they are deprived of this assistance in their efforts to get ahead. Moreover, their inability to participate in the market, because of lack of free credit balances and current restrictions on credit, has greatly reduced funds available for absorbing securities, with unfortunate results for large and small investors alike, and for the general public as well.

"B. Markets for listed securities constitute an invaluable reservoir of liquid funds. Recent events in other markets, where liquidity is relatively smaller in ordinary times and virtually disappears in times of crisis, threw additional burdens on listed securities markets, with disturbing effects, since securities markets were already thin, partly because of restrictions on the use of credit.

"C. Control and orderly use of credit must be distinguished from abolition of credit. In view of patterns throughout the business structure which customarily involve credit, abolition of credit in listed securities markets actually resulted in loss of control over credit in other markets. Credit sprees are not desired by this Association. But prohibition of the use of credit as an essential tool of finance, at a time when credit was not being used to excess for purchasing or carrying listed securities, and rendering this tool unavailable for the benefit of the American people when it was needed to stabilize disorderly markets can not be regarded as constructive public policy."

Copies of this communication are also being sent to each member of the Board of Governors of the Federal Reserve.

The Board of Governors of the Association of Stock Exchange Firms urges your serious consideration of this resolution.

Respectfully,

/s/ James F. Burns, Jr.,
President.

Why Cheap Money?

(Continued from page 3213)

ponents would like to check the decline, and to keep the interest rates at their present level. Both schools imagine that it would be possible to keep interest rates stable at a certain level. What they overlook is that the moment it becomes evident that the cheap money drive has come to an end —at no matter what level—speculators in Government stock would hasten to take their profit. There would be a sharp fall. This again would induce holders of floating debts not to renew their holdings, in the hope of being able to do so later on more favorable terms.

The result would be a sharp rise in interest rates, or a spectacular expansion of credit to meet maturities, or both. The Treasury would have to raise the funds required for the repayment of maturing debts, and would only be able to do so at much higher rates. To a large degree the money would be raised through an increased issue of Treasury bills, and in order that the banks should be able to absorb the addition the whole volume of credit would be expanded. The inflation thus brought about would be a multiple of any conceivable inflation created through continuing the cheap money policy.

If the trend of interest rates is reversed then British taxpayers will have to give up any hope for a reduction of taxation. Indeed, it may be even doubtful whether it will be possible to maintain taxation at the level to which it was reduced in the last Budget. Any further drastic reduction could only be possible through the conversion of high interest-bearing loans on a lower level. For this reason alone, the cheap money drive is a Treasury policy, not a Socialist Party policy.

Evidently, however, the cheap money drive could not continue forever. Its extreme limit is bound to be reached sooner or later, and when it is reached the reaction described above is certain to set in, unless in the meantime the floating debt has been reduced to normal proportions. It is important, therefore, to drag out the process as long as possible. It would be short-sighted to press the cheap money drive too hard, because in that case it might reach its extreme limit too soon. And it may take time before the unwieldy mass of floating debts could be reduced to manageable proportions. Once that end is achieved, the termination of the cheap money drive could be envisaged without undue concern.

The American Plan for German Bank Reform

(Continued from page 3208)

require 37 billion RM, more or less.

Its present condition, destruction, reparations, deindustrialization, lack of raw materials, prostrate internal and external trade make Germany practically a nation on relief. Often overlooked is the fact that in addition to its present inflated debt, deposits and currency there are tremendous future, non-productive costs which must be internally financed without outside help. Welfare costs, occupation costs, cleanup of destruction costs all mean budget deficits and hence more inflation —maybe hundreds of billions of Reichsmarks.

With the division of Germany into four zones there is—contrary to the Potsdam program—at this writing no common monetary banking and fiscal policy, although a detailed plan for financial reform has been prepared by a group of American financial experts and is now under quadripartite consideration in Berlin.

Russian Zone Differently Treated

While the paper currency in circulation in the four zones is uniform, consisting of Reichsmark notes issued before V-E Day by the Reichsbank and Allied military notes placed in circulation by the occupying armies, the treatment of bank deposits in the four zones has not been uniform. The Reichsbank, of course, no longer exists as a central-banking system. The head office in Berlin has been closed, so have the Berlin head offices of the big branch banks, central mortgage and savings banks. Instead there is only the Berlin Stadtkontor, a quadripartite-controlled bank. It does business with the public there, but has no contact with the former Reichsbank branches and agencies throughout the country. In the Russian zone of Germany all Reichsbank offices were closed and the Reichsbank branches in the other zones have no knowledge of what became of the assets of the Russian-zone branches and agencies. The same is true of the other big German banks. The Russians closed all commercial banks in the territories they conquered as of May 8, 1945 and replaced them with a new system of banks. In the other zones, however, the Americans, British and French allowed the local banks to resume business.

From the standpoint of inflation, therefore, the Russian zone has eliminated the inflation potential in the form of old bank deposits, a step which incidentally has forced many people to go to work who otherwise, as in the Western zones, would be tempted to live on their savings and patronize the black market more generally than they now can. On the other hand, the Russians are believed to have added to the inflation potential in their zone by the printing of large amounts of Allied military marks from duplicates of the plates used by the U. S. A. to print military marks for the Western powers. These duplicate plates were supplied by the United States. These Russian-printed notes have a tendency to overflow into the Western zones, as evidenced by the 1,000-mark notes, which the Western powers have not printed, but presumably the large-scale issuance of these Allied military notes by the Russians, especially during the early months of the occupation, must have swelled considerably the supply of currency in the hands of the population of the Russian zone, and the writer has heard, although there is no statistical measure thereof, that the black market is worse in the Russian zone than in the West of Germany. Whether this is a fact I cannot say.

It is "reliably reported" that the Russians agreed in 1945 to give the amounts of Allied Military Marks issues outstanding as of Dec. 31, 1945 and quarterly thereafter, but so far have not done so. U. S., U. K. and French have.

Reichsbank Official Interviewed

The former branches of the Reichsbank in the American zone are still operating under the Office of Military Government (OMGUS) with limited central-banking functions. There is such a branch in each of the three Laender of this zone. In Bavaria, for example, the Munich branch of the Reichsbank is so operated. Its German director is Mr. Heinrich V. Hartlieb, who for many years was connected with the Reichsbank and has considerable familiarity with occupation banking problems, having worked on the other side of the table in Paris, when that country was subject to direction from Berlin after the 1940 collapse. Director Hartlieb, incidentally, in prewar years as a Reichsbank official, worked with such American bankers as Rovensky and Gibson on standstill questions, and on Reichsbank foreign - exchange, clearing - agreement and similar matters.

The writer asked Mr. Hartlieb whether he felt, as do some of the Americans in Berlin with whom the matter was discussed, that it had been a mistake for us to leave the bank deposits intact upon our occupation of this zone of Germany. Mr. Hartlieb admitted that the pressure on the people to work is stronger in the East as a result of the U. S. S. R.'s policy of wiping out existing bank balances and breaking the banks, but that the Russian system was unfair and for many individuals quite brutal. The person who had been "correct" and left his money on deposit with his bank was penalized, whereas the person who took his deposits out in the form of currency was rewarded for his unsocial act, this Reichsbank official commented. People who patronized the black market during the war, Nazis and tax evaders had kept away from the banks.

In Mr. Hartlieb's opinion, the supply of notes now believed to be outstanding in the four zones of Germany is about ten times more than what would be normally required by the German economy. This suggests the elimination of nine-tenths of the notes in the public's hands. Referring only to Bavaria, but presumably the same applies more or less in the other parts of the American zone, Mr. Hartlieb pointed out that bank deposits as they existed on V-E Day are by no means all "live," for under Law No. 52 of the Control Council, certain bank accounts are almost completely blocked, being subject only to withdrawals of 200 to 300 marks a month in the cases of individuals and to withdrawal for working capital in the cases of businesses.[1]

The Banks and Inflation

The fact that the banks in this zone were left open, Mr. Hartlieb stated, resulted in the public regaining confidence in them. Accordingly, bank deposits have greatly increased because of the redepositing of currency by the public. Of the cash holdings of the banking system in this area, about nine-tenths is ultimately lodged in the local Reichsbank.

About 80% of the assets of the commercial banks here are in the form of German Government Treasury bills, now of course in default, since there is no longer a German central Treasury.[2] "Accordingly," continued Director Hartlieb, "the banks have no assets suitable for rediscount at this Reichsbank." But it is our policy to maintain confidence in the banking system. We do not want any bank to get into trouble, for that might become contagious. Therefore, if a bank is faced with trouble, it can borrow from this Reichsbank office in Munich, but only Lombard loans at 4½% interest, 1% more than the official discount rate for commercial paper.

"With regard to the Treasury bills in the hands of the banks, they are of course in the same category as old Reichsmark notes issued by the Reichsbank before V-E Day; that is, they are non-interest-bearing obligations of a presently extinct authority. The chief present difference is that with Reichsmark notes you can buy something.

"It is a mistake to regard Reichsmarks as completely worthless, even though they represent in large part the financing of the production of war goods now destroyed. Certainly a fair fraction is represented by tangible property which still has value, real estate, for example, so the Reichsmark is not completely devoid of *de facto* 'backing.'

"An interesting phenomenon in this part of Germany followed the replacement last year of the Reichsmark by the Shilling in nearby Austria. The effect in Bavaria was that large numbers of people brought Reichsmarks to their banks for deposit on the theory that here, too, the final reckoning might favor those with bank accounts as against currency hoarders. The people did not, presumably, bring to the banks all their currency, but perhaps only half, as a hedge. This evidenced a widespread belief in Bavaria that what would ultimately be done here as an anti-inflationary measure would be the opposite of what the Russians did in their zone of Germany immediately after the occupation.

"After currency reform, which however is not an isolated issue but can be successfully solved only along with other economic and political problems, the main problem facing us here," continued Mr. Hartlieb, "is bank decentralization." The American bank decentralization policy is reported to call for a miniature Federal Reserve System in the three American Laender of this zone."

American Banking Plan Described

The U. S. Plan for German banking is based on the quadripartite policy, laid down in the Berlin Conference, that this German economy shall be decentralized and that excessive concentrations of power be eliminated. Therefore, national centralization of banking or bank supervision in Germany or in the U. S. zone is considered by OMGUS to be ruled out. Banking operations, clearings, supervision and control are all being organized on a "Land," or State basis in the three Laender of the American zone.

The U. S. Plan recommends for the American zone a separate "central bank" for each of the three Laender, each such institution establishing clearing arrangements with the two other "Laender" central banks. Each central bank is to be known as the "Central Banking Institution," for which purpose the three regional branches of the Reichsbank are being used, namely, those of Bavaria (Munich), Wurtenberg-Baden (Stuttgart), and Greater Hesse (Wiesbaden). The word "Reich" is to disappear from their names.

Each of the three new central banks is to have a "supervisory board," representing the various economic interests, including union labor, of the Laender. Each Land central bank is to act as clearing and settlement institutions for all banks in its area as well as the two other Land central banks, the central banks of the British and French zones, a bank or banks in Berlin, and presumably the State banks in the Russian zone.

The Land central banks of the American zone are not to be banks of issue or commercial banks. They are to be confined to acting as bankers' banks and as fiscal agents of their respective Laender. Commercial and savings banks in each Land will be required to keep in the Land central bank a certain minimum percentage of their deposits, as a reserve for settling balances. The exact percentage the supervisory board will fix in each Land.

The Land central bank will issue the banking regulations for its jurisdiction, the American Plan provides. Bank inspection will be carried out, however, by independent supervisory agencies to be established in each Land somewhat similar to the Supervisors of State Banks in the U. S. A. The work of bank inspectors will be coordinated through a Banking Council, made up of the supervisory officials of the three Laender.

The American Plan envisages a banking law for each Land, as similar as possible to those of the other Laender, but taking into account local circumstances. It also calls for an independent supervisory agency, as completely divorced from politics as possible. The central bank's charter would empower it to regulate reserves, transfers and settlements, but subject to the regulations of any central banking authority later established for Germany as a whole.

In general, the American central bank plan for the Laender was designed to be easily amalgamated with any form of central financial administration later established under Potsdam for Germany as a whole, whether a central bank or central banking board.

Not only the central banks, but all classes of banks are to be decentralized to the Land level, under the American Plan. Branches outside of the Land where the bank's head office is located will not be permitted, and any new branches created within each Land first must be approved by the official bank supervisory authority of the Land concerned. Where in any one Land there exist branches of a bank with its head office located outside the Land concerned, one of the branches will be made that bank's head office for the Land, and such head office will be completely independent of any extra-Land control, direct or indirect, by any other banking institution.

The number of banks and branches in the zone will be reduced to conform to the limited service needs and available personnel of the community. Where eliminations are necessary, under the American Plan, local or regional banks will be favored over branches of former large banks such as the "Big Six."

Later on banking systems may be further decentralized to a Landkreis or Standtkreis basis, with emphasis on local ownership and control and branch banking may similarly be reduced in area, under the American Plan. But this feature, it was realized, might never be implemented because the units concerned might be too small to make it practicable.

Hartlieb Decries Headless Banking System

Commenting on the U. S. Plan, Mr. Hartlieb said: "It is hard in a few minutes to give all my reactions to the U. S. Plan, but I would like to make a few points. While decentralization of economic power is one of the quadripartite aims, the Berlin resolution of August 2, 1945, specifically provided that Germany shall be treated as an economic whole and to this end common policies shall be established in regard to currency and banking.' Implicit in such a policy would seem to be the ultimate establishment of a bank of issue for the whole of Germany and I suppose—it is only a supposition — that ultimately there will be such an institution to which the Laender 'central banks' can turn for credit in case of need. Logically, reorganization of banking in the American zone makes sense, in the light of the Berlin decision I just quoted, only if there exists a similar system in the other zones of Germany.

"To make a comparison, the Federal Reserve System in the United States does not leave the 12 reserve banks entirely independent, but insures the carrying out of national credit policies. W. Randolph Burgess, in his book 'The Reserve Banks and the Money Market,' describes the origin of the Federal Reserve System and says that when the decision had been taken to create 12 regional banks, an impossible situation would have ensued, had there been no provision for coordinating them. The same holds for the Reich today.

"Another point is timing. I pointed out to the Military Government last year that to reorganize banking in one zone before the German currency is reorganized and before a new central currency-issuing authority is set up would be premature, as it would burden the new, U. S.-sponsored banking system with the onus of currency reform. Then, what is to be done with the assets of the Reichsbank and commercial bank branches represented by claims on the now-closed head offices in Berlin?

"Under the occupation the Reichsbank branches have been forced to contract liabilities without always being given corresponding assets. An example was when the military government at Frankfurt reportedly deposited 2,500,000,000 RM of previously unissued notes it had captured in a cave in Thuringia for credit to its account at the Frankfurt branch of the Reichbank. This was the equivalent of the causing the issuance of that much currency without corresponding assets. The 2,500,000,000 RM deposit is thus a charge on the three Laender governments of the American zone or of all four zones.

"In my opinion, too," continued Mr. Hartlieb, "the central bank should be as separate from the government as possible, and not made the means of financing government deficits. It must be remembered that in Germany State-owned banks have been traditional. In Bavaria, for example, a Bavarian State Bank has been in existence for more than 165 years. Such institutions, therefore, ought to be used to finance state exchequer needs.

"In the past the Reichsbank branches have dealt not only with other banks but with the general public. They are not to be pro-

1 Elsewhere the writer was informed that while blocked accounts are a substantial part of total deposits most of them are not totally blocked, but may be utilized for "normal business transactions."

2 In the cases of former branches of large banks, a large part of assets consist of claims on other banks, principally on the head offices in Berlin, where functions of investment were exercised.

William F. Goulet Opens Offices in New York City

William F. Goulet has opened offices at 32 Broadway, New York City, to act as dealer in public utility and industrial stocks and bonds, whole mortgages and mortgage certificates. Mr. Goulet was previously President of W. F. Goulet & Co., Inc. and was with Realty Liquidators, Inc. of Yonkers, N. Y.

hibited from doing that sort of business, but I think all accounts for clearing agreements should be kept with the central bank. The public should be obliged to bring its foreign exchange to the 'central bank.'

"In the last analysis, of course, a bank which has no note-issue power can hardly be correctly described as a central bank.

"Under the American Plan, with the creation by the Laender governments in whole or in part of the Bank Control Supervisory Boards, and Bank Committees the 'central banks' will be strongly under the influence of the governments. This may prove harmful to the currency. I feel that we should be building a sounder postwar banking system if more of the banking decisions were entrusted to trained bankers and not so much to German government officiels.[3]

[3] While Mr. Hartlieb's objection is justifiable, it is really not a criticism of the American authorities. In the evolution of the U. S. plan the principles were laid down for decentralization and central banks for the Leander. Each Land was asked to submit a law to fit the principles, for approval. Minor differences were not to be obstacles, provided principles were effectuated. Draft laws were submitted, but, as one American relates it, "The politicians took over everything, appointed everyone, approved everything. They outdid Hitler. They were told they had to modify their ideas."

Washington and You

(Continued from page 3205)

sites just can't get too chummy over such issues.

* * *

"Reasonable self-denial" during 1947 is to be urged upon American consumers by the Federal phrase makers. We are to be told that (1) supplies of certain consumer goods will remain scarce, (2) available supplies must be prorated to all nations, (3) if we demand more than an equitable share, production in other nations will be stimulated to unsound volume, (4) ultimate overproduction will result and American producers will lose their markets abroad.

* * *

Sugar is cited by the controllers as a scarce food which must be distributed equitably if a balanced world economy is to be achieved. Before the war, we consumed about 19% of the world's sugar production. This year we are getting 5,400,000 tons, or about 20% of production. For 1947 the Food Industry Council Committee is demanding 6,950,000 tons, or about 25% of the estimated 30 million ton production. Government budgeteers warn we must remain on the old 19 or 20% level, otherwise we'll upset the sugar bowl.

* * *

Republican Congressmen will accept—with pleasure—Treasury Secretary John Snyder's invitation to sit down with his experts in budget balancing tete-a-tetes. Snyder has offered services of Treasury tax specialists to Senate and House members who will write the next revenue bill. Many Republicans and Democrats like and trust Snyder, will welcome such friendly cooperation — unusual since 1932.

* * *

Foreign trade turmoil will shortly boil over. Under Secretary of State Clayton hopes to highlight coming international conference with world agreements cutting tariffs for the next three years. Republicans are ready to counter with demands that all such commitments be submitted to Congress for ratification. This kicks the entire Reciprocal Trade Agreements Act into a hot kettle of economic as well as political ingredients —and the resultant mess won't be very palatable to the low-tariff advocates.

* * *

Republicans themselves are split on the trade pacts issue. New York's Republican Representative Reed is penning a resolution killing the entire trade agreements statute. That won't pass. Better guess is that Congress will vote itself a chance to OK or veto tariff changes before they become operative.

* * *

Statute of limitations protecting industry from excessive recovery suits by labor will be debated, likely enacted by the Republican Congress. This action will stem from the court order permitting unions to sue for portal-to-portal pay under the Federal Wages and Hours Act for a period retroactive to 1938. Estimates place the resultant liability of employers at $6 to $10 billion. New Deal Congressmen refused to limit the liability. Now, however, legislators are ready to step in with restraining action if necessary, compressing the retroactive recovery period into one, two, or three years.

* * *

Economy of scarcity or Federal subsidies? That's the worrisome dilemma dangling before Congress. The New Deal Congress voted to maintain farm prices at 90% of parity for two years after the war's termination. Now crop production is booming, may shortly ring up surpluses. So Congress must decide whether to (1) let production run rampant and pay parity subsidies or (2) curb production and avoid parity payments. From this position it looks like continuation of subsidies for a couple of years. Republicans just don't hanker to embrace the old Roosevelt philosophy of plowing under.

* * *

Definitely dead victim of the Wyatt housing collapse is the dream of a new and fabulous prefabricated home industry financed by government loans. Federal aid for pre-fab projects will be made available but limited to small, non-related ventures.

* * *

Coastwise vessels will shortly be nudged into a lumber transportation cue. One of the narrow bottlenecks in the housing stoppage is the box car shortage. To help market increasing timber supplies, the Maritime Commission will conscript merchant marine aid.

* * *

Justice Department trust busters are unhappy, fear an economy conscious Congress may whittle down their appropriations. So they're excavating the old monopoly witch and will shortly send her aloft astride their own propaganda broom. Their special mission, they will remind the public, is to protect taxpayers from monopolistic evils. Ergo, taxpayers surely wouldn't want the trust busting fund curtailed. Congress will hear lots of such special exemption pleas, likely will ignore most of them.

* * *

Socialized medicine has died aborning. The Wagner-Murray-Dingell bill for universal compulsory health insurance was interred by the Republican landslide. Substituted for this instrument will be a National Health measure authored by Ohio's Republican Senator Taft, proposing a state system of medical care for the poor and coordinating the health functions of the Federal Government in a single agency.

* * *

Federal Trade Commission is about to resume collecting industry-wide statistical reports. This operation was suspended during the war because of duplicating OPA effort. With OPA discarded, FTC has obtained the Presidential nod and will soon again be circulating its questionnaires. More paper work!

* * *

Convening of Congress will signal a renewed and energetic drive to have the four-cent copper tariff shaved in half. White House advisors are already viewing this tough one a little forlornly.

* * *

Federal Reserve Board this week aimed a load of buckshot at the used car inflation balloon by invoking again the utilitarian Regulation W. The board ruled that hereafter used car credit value must be based on the lower of either (1) the cash purchase price or (2) the average retail value as stated in one of the used car guides designated by the Board. Previously, credit value had been based solely on cash purchase price.

* * *

Here's an official word of warning to investment bankers that the Justice Department is looking you over. Said Assistant Attorney General Wendell Berge in a recent speech: "In considering the monopoly problems raised by the increasing number of mergers, we must not overlook the influence of financial groups and investment bankers on competition in American industry. These bankers are primarily interested in the sale of securities. These sales are their principal source of income. Consequently, it is natural for them to seek every opportunity to stimulate new security issues. Since these bankers also act as financial advisors to the companies which issue the securities they sell, they are in a strategic and powerful position to create the business they seek." [See page 3207 for full text of Mr. Berge's address.—Editor.]

Lincoln Re-elected Insurance Inst. Head

Leroy A. Lincoln, President of the Metropolitan Life Insurance Co. of New York, was re-elected Chairman of the Board of the Institute of Life Insurance on Dec. 11, at the Institute's Eighth Annual Meeting at the Waldorf-Astoria Hotel, New York. Elected as members of the Board of Directors to serve until 1950 were Paul F. Clark, Boston, Mass., President of the John Hancock Mutual Life Insurance Co.; Franklin D. D'Olier, Newark, N. J., Chairman of the Board, Prudential Insurance Co. of America; F. W. Hubbell, Des Moines, Iowa, President of the Equitable Life Insurance Co. of Iowa; J. H. Lithgow, Toronto, Ont., Vice-President and General Manager, Manufacturers Life Insurance Co. and Charles F. Williams, Cincinnati, Ohio, President of the Western & Southern Life Insurance Co.

New members of the executive committee, all elected from the present Board of Directors, include Harry W. Manning, Winnipeg, Man., Managing Director of the Great West Life Assurance Co.; Arthur M. Collens, Hartford, Conn., President of the Phoenix Mutual Life Insurance Co. and E. W. Craig, Nashville, Tenn., President of the National Life & Accident Insurance Co. of Tennessee.

Re-elected to the executive committee were Claris Adams, Columbus, Ohio, President of the Ohio State Life Insurance Co.; Col. D'Olier; James A. Fulton, New York, President of the Home Life Insurance Co. of New York and John A. Stevenson, Philadelphia, Pa., President of the Penn Mutual Life Insurance Co.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

Last week's failure to advance gives signs of turning into this week's success. Technical indications point to resumption of rally.

The market having come close to giving everybody the signal for a bull market they were waiting for, it turned down again, in characteristic manner, adding to the confusion that already existed.

* * *

The hardest thing to do is to take a loss. I have known people to sit with their stocks for months on end, hoping everything would work out and the loss would some way be transformed into a profit. I have nothing against long pull holding. But when such long pulls tie up cash which could be used advantageously, it is neither investing or trading. Years ago I knew a successful trader who disposed of all his stocks at regular intervals. He would then go over each issue. If the reasons that led to his buying still remained, he would buy them again. If not he would buy something else, or do nothing.

* * *

All this leads to the statement that the stocks originally recommended here are still in a position to advance. In fact the entire market—which failed to penetrate the highs last week, despite the wide publicity and reams of explanations—hasn't changed its bullish picture. The outlook for an advance is still the same It has just been postponed.

* * *

Last week I wrote in discussing the rally that "by the time you read this (last week's column) it may no longer be current." You saw what happened. Now I say that by the time you read this week's column, the market will probably be up again, and the stories of new bull markets will again be revived.

* * *

Actually there are quite a number of stocks which should do better in the comparatively near future. To choose them, however, is something else. A rule of thumb I think you might seriously consider is to regard last week's lows as immediate stops. In other words, stocks would be a buy at current levels (Tuesday's close) but should not be held if they break last week's lows.

* * *

Readers are still long of four stocks, some bought recently, and some bought some time ago. Up to this writing all of these show higher ultimate prices. However, the stops should not be disregarded. What looks wonderful one day has a habit of turning nasty the next. If there is anything consistent about the market, it is its inconsistency.

* * *

Anaconda bought at 37, is to be sold across 42; stop remains at 37. Dresser bought at 17, should be sold across 24. Stop still is 18. Gulf, Mobile and Ohio bought at 12, has no immediate selling price. Just hold on with a stop at 13. Incidentally company just declared a $2.50 dividend on the preferred, which took the Street by surprise. Southern Pacific came in at 43, the stop is now 44.

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.*]

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. Offering temporarily postponed.

• Adams Oil Co., Los Angeles, Calif.
Dec. 9 (letter of notification) 30,000 shares each ($10 par) 6% cumulative convertible preferred and ($1 par) common. **Price**—$10 a unit consisting of one share of preferred and one share of common. **Underwriter**—Pacific Co. of California, Los Angeles. **Proceeds**—For working capital and construction of an asphalt plant.

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 Lanes, Inc., Portland, Me.
Oct. 9 (letter of notification) 15,000 shares each of preferred and common. Offering price, $10 a preferred share and 1 cent a common share. If offerings are made in the State of Maine, they will be made by Frederick C. Adams & Co., Boston. To complete plant and equipment and to provide working capital.

• Airways Training, Inc., Oakland, Calif.
Dec. 13 (letter of notification) 750 shares ($100 par) Class A stock. **Price**—$100 a share. No underwriting. For purchase of machinery and equipment and payment of organizing costs and operating expenses.

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 Building Corp., Dover, Del.
Nov. 5 (letter of notification) 20,000 shares each ($10 par) 5% cumulative preferred and no par common. Price, $10 a unit consisting of one share of preferred and one share of common. **Underwriter**—E. M. Fitch & Co., Philadelphia. **Proceeds**—For additional machinery, working capital and other corporate purposes.

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 Fidelity Co., Montpelier
Dec. 2 (letter of notification) 10,000 shares (no par) capital stock, to be offered to present stockholders. **Price**—$59 a share. No underwriting. For additional capital funds for expansion purposes.

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. Offering date indefinite.

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.

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 in the ratio of one additional share for each two shares held. Unsubscribed shares will be offered for subscription to officers and directors of the company **Price**—By amendment. **Proceeds**—Working capital. Offering indefinitely postponed.

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. Offering date indefinite.

Atlantic Refining Co., Philadelphia
Oct. 29 filed 293,000 shares ($100 par) cumulative preference stock. **Underwriter**—Smith, Barney & Co., New York. **Offering**—Stock will be offered for subscription to common stockholders on the basis of one share of preference stock for each nine shares held. Unsubscribed shares will be sold to the underwriters who will reoffer it to the public. Price by amendment. **Proceeds**—A maximum of $15,540,000 of the net proceeds will be applied to redemption of the company's cumulative preferred stock, convertible 4% Series A, at $105 a share. The balance will be added to general funds for corporate purposes including repayment of obligations, acquisition of additional production, and expansion of refining, transportation and marketing facilities. Offering temporarily postponed.

Bachmann Uxbridge Worsted Corp.
Nov. 27 filed 45,000 shares of 4% preferred stock (par $100) and 200,000 shares of common stock (par $1). **Underwriters**—Kidder, Peabody & Co. and Bear, Stearns & Co. **Proceeds**—Will go to selling stockholders. Price by amendment.

Basic Food Materials, Inc., Cleveland, Ohio
Nov. 26 (letter of notification) 5,000 shares (no par) common, to be offered to stockholders; 295 shares of ($100 par) preferred, 4,750 shares (no par) common and $50,000 10-year 5% debenture notes, all to be offered to the public. **Prices**—$5 per common share to stockholders; $10 per common share to public, $100 per preferred share and debentures at face. No underwriting. To increase working capital.

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.

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 postponed indefinitely.

Berg Plastics & Die Casting Co., Inc.
Oct. 31 (letter of notification) 75,000 shares (10c par) common. **Price**—$4 a share. **Underwriter**—E. F. Gillespie & Co., Inc. **Proceeds**—For acquisition of machinery, tools and raw materials, and for working capital.

Birmingham Electric Co., Birmingham, Ala.
Offering—Company is offering the stock on a share for share exchange basis to holders of its $7 preferred stock and $6 preferred stock, plus a cash adjustment. Exchange offer expires 3 p.m. (EST) Dec. 23. Shares not required for the exchange will be sold at competitive bidding at a price not less than $100 per share net to the company. **Underwriting**—To be determined by competitive bidding. Probable bidders include The First Boston Corp.; Dillon, Read & Co., Inc.; Blyth & Co., Inc.; Lehman Brothers; Kidder, Peabody & Co.

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.

Book-of-the-month Club, Inc., New York
Oct. 28 filed 300,000 shares ($1.25 par) capital stock. **Underwriter**—Eastman, Dillon & Co., New York. **Offering**—Of the total, the company is selling 100,000 shares and six stockholders, including Harry Scherman, President, and Meredith Wood, Vice-President, are selling the remaining 200,000 shares. Price by amendment. **Proceeds**—Company will use its net proceeds for working capital to be used for expansion of inventories of paper and other raw materials and book inventories.

NEW ISSUE CALENDAR

(Showing probable date of offering)

December 19, 1946

Briggs & Stratton Corp.____________Capital Stock
Ohrbach's Inc.____________Preferred
Union Pacific RR.________Cond. Sales Agreements

December 20, 1946

Eastern Broadcasting, Inc.__________Pfd. and Com.
Pacific Western Oil Corp.__________Capital Stock

December 23, 1946

Walker Vitamin Products Co.__Cl. A & Cl. B Stocks

December 24, 1946

Kingsport Press Inc.__________________Common

December 27, 1946

Red Owl Stores, Inc.______________Pfd. and Com.

December 30, 1946

Sydney County Council N. S. Wales________Bonds

January 2, 1947

Frontier Power Co.___________________Common
Harman (William) Corp.____________Capital Stock
Orange-Crush de Cuba S.A.____________Common

January 3, 1947

Canadian Admiral Corp., Ltd.__________Common

January 6, 1947

Manning, Maxwell & Moore, Inc.________Common

January 13, 1947

Western Air Lines, Inc.__________Capital Stock

January 15, 1947

White's Auto Stores, Inc.__________Pfd. and Com.

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 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. Offering date indefinite.

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. Offering date indefinite.

Briggs & Stratton Corp. (12/19)

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.

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.

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 (1/3-10)

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**—No underwriters. **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 & 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.

Central Soya Co., Inc., Fort Wayne, Ind.

Aug. 21 filed 90,000 shares (no par) common. **Underwriter**—None. **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.

Christina Mines, Inc., New York

Dec. 9 (letter of notification) 270,000 common shares (par $1). **Underwriters**—Newkirk & Banks, Inc. **Price**—$1 per share. **Proceeds**—Working capital, etc.

Citizens Casualty Co. of New York

Dec. 3 (letter of notification) 5,000 shares of $1.25 prior preferred being offered to stockholders at $25 a share. The right to subscribe will be in the ratio of one share for each 5 shares held. **Underwriter**—Salvage Adjustment Corp., New York, may be considered underwriters. For general corporate purposes.

● **Collett-Week-Nibecker Inc., San Francisco, Calif.**

Dec. 9 (letter of notification) 3,000 shares of 6% cumulative preferred. **Price**—$100 a share. No underwriting. For additional working capital.

Colonial Airlines, Inc., New York

Oct. 25 filed 150,000 shares ($1 par) capital stock. **Underwriter**—Auchincloss, Parker & Redpath, Washington, D. C. and Hornblower and Weeks, New York. Price by amendment. **Proceeds**—Net proceeds will be used to pay off a $550,000 loan to the Continental Bank & Trust Co. of New York; purchase equipment and development expenses of Bermuda route. The balance will be used to increase 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.

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. **Underwriter**—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. Stockholders subscribed for 735 shares. The offering to common stockholders excluded the two principal stockholders who waived their rights to subscribe. The remaining 90,414⅔ shares and 58,850⅓ shares not subscribed to by common stockholders will be offered to the public through underwriters. **Price**—$5 a share. **Proceeds**—Approximately $50,000 for payment of Federal taxes; $250,000 for payment of Lincoln-RFC loan; $50,000 as a loan to Palmer Brothers Engines, Inc., a subsidiary; balance for purchase of machinery and equipment and 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.

Continental Car-na-var Corp., Brazil, Ind.

Nov. 4 (letter of notification) 132,500 shares ($1 par) common and 35,000 warrants for purchase of common one year after present public offering. **Price**—$2 a common share, one cent a warrant. **Underwriter**—L. D. Sherman & Co., New York. For working capital.

Continental Oil Co., New York

Nov. 25 filed an unspecified number ($5 par) capital stock shares. **Underwriters**—None. **Offering**—The shares will be offered for exchange on or before Feb. 1, 1947, to holders of $2 par capital stock of Texon Oil & Land Co., on basis of one share Continental for 4 shares Texon.

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.)

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.

● **Curtis Publishing Co., Philadelphia**

Dec. 10 (letter of notification) 1,000 shares of common on behalf of Cary W. Bok, Vice-President and Director. **Price**—At market. Stock will be offered through the brokerage firm of Hecker & Co., Philadelphia. Proceeds to selling stockholder.

● **Curtis Publishing Co., Philadelphia**

Dec. 10 (letter of notification) 1,000 shares of common on behalf of William Curtis Bok. **Price**—At market. To be offered through brokerage firm of Granbery, Marache & Lord, New York. Proceeds to go the selling stockholder.

● **Curtis Publishing Co., Philadelphia**

Dec. 10 (letter of notification) 3,000 shares of common on behalf of Mary Curtis Zimbalist, a Director and Vice-President. **Price**—At market. To be offered through the brokerage firm of Granbery, Marache & Lord, New York.

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.

Dallas (Texas) Railway & Terminal Co.

Nov. 27 filed 40,000 shares ($25 par) 5% participating preferred stock. **Underwriters**—Names to be supplied by amendment. **Probable Underwriters**—Kidder, Peabody & Co., Merrill Lynch, Pierce, Fenner & Beane;

(Continued on page 3258)

(Continued from page 3257)
Rauscher, Pierce & Co. Price by amendment. **Proceeds**—Proceeds will be applied to the redemption of 3,843 shares of 7% preferred stock and for purchase of new equipment and for construction as part of its modernization and expansion program. **Business**—Railway, trolley and bus transportation.

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. Offering date indefinite.

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.

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. Boston. For working capital.

● **Dispensers Inc., Brooklyn, N. Y.**
Dec. 13 (letter of notification) $100,000 of 5-year 4% sinking fund debentures, due 1951; $100,000 of 7½ year 4% sinking fund debentures, due 1954; 10,000 shares ($9.50 par) 5% cumulative preferred; 30,000 shares (15¢ par) common, and options for purchase of 25,000 shares of common, exercisable one year after present offering. Prices, $1,000 per debenture, $9.50 a preferred shares, 15 cents a common share and one cent an option. The securities are to be offered to a group for investment, certain of whom are represented by Carl M. Loeb, Rhoades & Co. and certain of whom are represented by Roberts & Co. For payment of outstanding liabilities, for purchase of equipment and supplies and for working capital.

Durasite Corp., Clearwater, Fla.
Oct. 11 (letter of notification) 99,000 shares of common and purchase warrants covering 50,000 shares of common. **Offering**—Price $3 a common share and five cents a warrant. **Underwriter**—Amos Treat & Co., New York. For machinery, plant renovation and working capital. Offering date indefinite.

● **Eastern Broadcasting Co., Inc., West Hempstead, N. Y. (12/20)**
Dec. 13 (letter of notification) 530 share units, each comprising of one share of $100 par 6% cumulative preferred and one share of no par common. Price, $100 a unit. No underwriting. For construction of radio broadcasting station, purchase of land and other expenses.

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.

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. Offering date indefinite.

Falk Mercantile Co., Ltd., Boise, Ida.
Oct. 21 (letter of notification) 3,000 shares of 4½% preferred ($100 par). **Price**—$100 a share. **Underwriter**—Richard Meade Dunlevy Childs, Boise, Idaho. Proceeds to retire debentures and for expansion purposes.

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.

Films Inc., New York
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.

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.

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. Offering date indefinite.

Frontier Power Co., Trinidad, Colo. (1/2-15)
Oct. 25 filed 119,431 shares ($5 par) common. **Underwriter**—Sills, Minton & co. Price by amendment. **Proceeds**—Shares are being sold by three stockholders, including J. G. White & Co., Inc., New York, which is selling all of its holdings of such stock. Following the sale of its holdings J. G. White will no longer be parent of Frontier. Company will receive none of the proceeds.

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.

Grand Canyon-Boulder Dam Tours, Inc., Boulder City, Nev.
Sept. 3 filed 500,000 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. **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 date indefinite.

Harman (William H.) Corp., Phila. (1/2-15)
Nov. 13 filed 300,000 shares of capital stock. **Underwriter**—Smith, Barney & Co. Price by amendment. **Proceeds**—Will be applied to the purchase and installation of machinery and equipment and to the carrying of inventories and receivables. Additional working capital is expected to be made available under a credit agreement with the Chase National Bank.

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.

Health Institute, Inc., Hot Springs, N. Mex.
Dec. 16, filed 50,000 shares ($10 par) 5½% cumulative prior preferred and 50,000 shares ($10 par) common. **Underwriting**—None. **Offering**—All of the preferred and 40,000 shares of the common will be offered publicly. Of the remaining common, 9,998 shares will be issued to Charles J. Van Ruska in payment for promotional services and a 99-year lease on real estate assigned to the company, and one share each will be issued to Tom A. Corbett and Emil M. Van Sant for services. All three men are officers of the company. **Price**—$10.15 a preferred share and $10 a common share. **Proceeds**—Proceeds will be used to build and equip hotel and health facilities and to acquire a mineral water supply. **Business**—Operation of health resort.

● **Helene Curtis Industries, Inc., Chicago**
Dec. 5 filed 60,000 shares ($5 par) 50-cent cumulative convertible preferred, Series A, and 120,000 shares ($1 par) common, reserved for conversion of preferred. **Underwriter**—Simons, Linburn & Co. **Offering**—Company will offer 40,000 shares of preferred to employees at $9.50 a share and 20,000 shares to the public at $10 a share. **Proceeds**—To be added to general corporate funds. **Business**—Beauty supplies.

Hollywood Colorfilm Corp., Burbank, Calif.
Oct. 16 (letter of notification) 119,500 shares of ($1 par) capital. Price, $3 a share. No underwriting contract, however, 55,000 shares to be issued to or through H. R. O'Neil of Buckley Bros., Los Angeles, will be sold by one or more of the following firms: Buckley Bros.; Durand & Co., Tucson, Ariz.; J. Earle May & Co., Palo Alto, Calif.

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. **Underwriters**—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.

Hy-Grade Supply Co., Oklahoma City
Dec. 3 (leter of notification) 54,350 shares of cum. conv. preferred and 50,000 common stock purchase warrants. **Price**—$5.50 a preferred share and 2 cents a warrant. **Underwriter**—Amos Treat & Co., New York. To exercise options for purchase of five variety stores, to retire notes and for working capital.

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.

● **Johnson Power-On Transmission Corp. of Ill., Chicago**
Dec. 12 (letter of notification) 5,252 shares of common ($10 par). **Price**—$10 a share. No underwriting. For improvement and development expenses.

Kingsport Press, Inc., New York (12/24)
Nov. 14 filed $1,200,000 4% sinking fund debentures, due 1966 (to be placed privately with an insurance com-

pany) and 55,000 shares ($2.50 par) common. **Underwriter**—Alex. Brown & Sons, Baltimore, Md. **Price**—By amendment. **Proceeds**—Company will receive proceeds from sale of debentures, and common stockholders will receive proceeds from shares. Company will use $577,500 to redeem 5,500 shares of 5% prior cumulative preferred and $281,017 to prepay note to Equitable Life Assurance Society of the United States.

Kiwago Gold Mines Ltd., Toronto, Canada
Dec. 3 filed 1,000,000 shares (no par) common. **Underwriter**—Jack Kahn, New York. **Price**—70 cents a share, the underwriting discount will amount to 21 cents a share. **Proceeds**—For exploration and development of mining property and for administrative expenses.

Leader Enterprises, Inc., New York
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. Offering date indefinite.

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.

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.

Managed Funds Inc., St. Louis, Mo.
Dec. 3 filed 2,300,000 shares (1c par) capital stock. **Underwriter**—Slayton and Co., Inc., St. Louis. **Price**—$5 a share. **Proceeds**—For investment.

Manning, Maxwell & Moore, Inc. (1/6-47)
Nov. 27 filed 160,000 shares of $12.50 par common. **Underwriter**—Hornblower & Weeks, New York. Price by amendment. **Proceeds**—Proceeds will be used to repay $1,000,000 in bank loans with the balance going into general funds.

Markley Corp., Meriden, Conn.
Dec. 5 (letter of notification) $75,000 5% convertible notes (par $1,000), $25,000 5% convertible notes (par $500) and 22,500 warrants for purchase of common. The notes will be sold at face amount and purchasers of each $1,000 note also will receive warrants for purchase of 140 shares of common and purchasers each $500 note will receive warrants for purchase of 70 shares of common. Other warrants for purchase of 8,500 shares of common will be sold at five cents a warrant. **Underwriter**—Amos Treat & Co., New York. For payment of certain current indebtedness, purchase equipment and improve plant facilities.

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.

• **McQuay, Inc., Minneapolis**
Dec. 12 (letter of notification) 50,000 shares of common. **Underwriters**—Loewi & Co., Milwaukee; Park-Shaughnessy & Co., St. Paul, Minn.; Bell, Farrell & Stebbins, Inc., Madison; Heronymus & Co., Sheboygan, Wis. **Price**—$5.75 a share. **Proceeds**—Working capital.

Meyer-Blanke Co., St. Louis, Mo.
Nov. 29 (letter of notification) 1,200 shares (no par) common, 50% on behalf of George A. Meyer Finance Co., St. Louis; and 50% on behalf of Robert L. Blanke, Jr. and Marian Blanke, both of University City, Mo. **Price**—$31 a share. **Underwriter**—Smith-Moore & Co., St. Louis.

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.

Midas Yellowknife Gold Mines Ltd., Toronto, Canada
Oct. 21 filed 1,250,000 shares ($1 par) common. **Underwriter**—R. J. Hale, East Aurora, N. Y. **Offering**—Of the total company is selling $1,000,000 shares and the remaining 250,000 shares are being sold for the account of the principal underwriter, brokers and dealers, which shares they will receive as additional compensation on the basis of 250 shares for every 1,000 shares sold for the company. **Price**—60 cents a share. The underwriters will receive a discount on the 1,000,000 shares of 15 cents each. **Proceeds**—For exploration and mine development work.

Monmouth Park Jockey Club, Oceanport, N. J.
Dec. 5 filed 16,000 shares ($50 par) 5% cumulative convertible preferred and 633,500 shares (1c par) common. **Underwriter**—Unsubscribed shares and additional shares to a total of 315,000 will be purchased by the Monmouth Corp., formed last May to finance construction of the racing plant. **Offering**—Company will offer present common stockholders the right to purchase 387,500 additional common shares at $4 each in the ratio of 1¼ shares for each share held. **Price**—$4 a share. **Proceeds**—Part of the funds will be used to redeem 25,200 shares of $50 par 4% non-cumulative convertible preferred held by Monmouth Corp. A balance due on construction work will be paid by distribution of 14,636 shares of the new preferred to F. H. McGraw & Co. and subcontractors. **Business**—Operation of race track.

Monroe Sales Corp., Philadelphia
Nov. 27 (letter of notification) 250 shares ($100 par) 6% cumulative preferred and 100,000 shares (50¢ par) common. **Price**—$100 a preferred share and 50 cents a common share. No underwriting. To carry on business of the corporation as factory representative and dealer.

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.

• **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 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.

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.

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. 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. An altemate plan filed Nov. 25 with the SEC provides for the issue of 77,625 convertible preferred shares (par $100) and 1,246,011 common shares (par $8). Under the proposed plan consolidated funded debt would be practically unchanged from that provided in original plan, the Association to issue $22,425,000 coll. trust bonds. These bonds and preferred stock may be sold, subject to an exchange offer, to the holders of present debentures on a par for par basis. Present preferred would receive for each share held 8 shares of new common with rights to subscribe to 5 new common shares at $9 per share. The present plan does not affect the status of original plan, but determination as to which will be used will be left to the SEC and the court. Hearings on the alternate plan are scheduled by the SEC for Dec. 19.

New York State Electric & Gas Corp., Ithaca N. Y.
Oct 30 filed $13,000,000 first mortgage bonds, due 1976, and 150,000 shares of ($100 par) cumulative preferred. **Underwriters**—To be determined by competitive bidding. Probable bidders include Blyth & Co. and Smith, Barney & Co. (jointly); First Boston Corp. and Glore, Forgan & Co. (jointly) and Halsey, Stuart & Co. Inc. (bonds only). **Proceeds**—Estimated proceeds of $28,000,000, together with a $6,000,000 contribution from NY PA NJ Utilities Co., parent, will be used for redemption of $13,000,000 of 3¾% bonds, due 1964, and 120,000 shares ($100 par) 5-10% cumulative serial preferred and to finance new constructions.

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. Offering temporarily delayed.

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.

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 35,000 shares (no par) $2 cumulative preferred. **Underwriters**—Paine, Webber, Jackson & Curtis and Stone & Webster Securities, New York. **Offering**—Of the shares registered, 21,000 are being sold by the company and the remaining 14,000 are being sold by General Telephone Corp. **Price**—By amendment. Offering indefinitely postponed.

Ohrbach's Inc., New York (12/19/20-23)
Nov. 27 filed 40,000 shares ($50 par) cumulative preferred stock series A. **Underwriter**—A. G. Becker & Co., Inc., New York. Price by amendment. **Proceeds**—Company will receive proceeds from the sale of 5,000 shares and five stockholders will receive proceeds from the sale of the remaining 35,000 shares. The company will apply its proceeds to general funds.

Old Town Ribbon & Carbon Co. Inc.
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.

Orange-Crush de Cuba, S. A. (1/2-15)
July 22 filed 125,000 shares ($1 par) common and 40,000 warrants. **Underwriter**—Floyd D. Cerf Co., Inc., Chicago. **Offering**—Price $4.75 a share. **Proceeds**—Of the total company is selling 37,500 shares and stockholders are selling 87,500 shares. The company will use its proceeds for equipment and working capital.

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.

• **Pacific Telephone & Telegraph Co., San Francisco**
Dec. 12 filed 328,125 shares ($100 par) common. **Underwriting**—None. **Offering**—The shares will be offered for subscription at $100 a share to common and preferred stockholders of record on Jan. 8, 1947, in ratio of 1 share for each 10 shares (common and/or preferred) then held. Subscription rights will expire Feb. 10, 1947. **Price** $100 a share. **Proceeds**—Net proceeds of $32,728,000 if all rights to subscribe are exercised will be used to reimburse in part the company's treasury funds used for additions and improvements to its telephone plant and plants of its subsidiaries. The balance of proceeds will be used to repay outstanding advances from American Telephone and Telegraph Co., parent. The company said advances from AT&T are expected to approximate $45,000,000 at the time the proceeds are received.

(Continued on page 3260)

(Continued from page 3259)

• Pacific Western Oil Corp., Jersey City (12/20)

Dec. 11 (letter of notification) 4,477 shares ($10 par) capital stock. To be offered for sale to certain employees at a price to be based on the market price but no event higher than $20 a share. No underwriting. For general corporate purposes.

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.

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.

Peruvian International Airways, Lima, Peru

Dec. 5 filed 477,122 shares ($7 par) 50-cent convertible preferred and 238,561 shares ($1 par) common. **Underwriter**—None stated. **Offering**—Shares will be offered publicly in units of two shares of convertible preferred and one share of common at $15 a unit. The company also may offer the shares other than by unit at a price of $7 a preferred share and $1 a common share. **Proceeds**—To increase capital for expansion of proposed air route connecting Peru and Montreal, Can.

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.

Plastic Molded Arts, Inc., New York

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.

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.

Quebec Gold Rocks Exploration Ltd., Montreal

Nov. 13 filed 100,000 shares (50¢ par) capital stock. **Underwriter**—Robert B. Soden, Montreal, director of company. **Price**—50¢ a share. **Proceeds**—For exploration and development of mining property.

Realmont Red Lake Gold Mines, Ltd., Toronto, Canada

Nov. 20 filed 800,000 shares of common stock ($1 par). **Offering Price**—$0.60 a share to public. Company has not entered into any underwriting contract. **Proceeds**—Development of mining properties and exploration work.

Red Owl Stores, Inc., Minneapolis (12/27)

Nov. 29 filed 15,000 shares ($100 par) cumulative convertible preferred and 50,000 shares ($3 par) common. **Underwriters**—Piper, Jaffray & Hopwood and J. M. Dain & Co., Minneapolis. Price by amendment. **Proceeds**—Company expects to use $800,000 of the proceeds for reduction of its bank loans. Of the remaining proceeds, it will use $500,000 for equipment of its general office and warehouse being constructed at Hopkins, Minn.; $300,000 for equipment of warehouses at Green Bay, Wis., and Fargo, N. D., which it expects to construct in the future. Any balance will be used in its modernization and the expansion program.

Reliance Varnish Co., Louisville, Ky.

Nov. 20 filed 60,000 shares of common stock ($2.50 par). **Offering Price**—$10 a share. **Underwriter**—Bankers Bond Co., and Almstedt Bros., both of Louisville, and Cruttenden & Co., Chicago. Of the total of 60,000 shares, the company is selling 40,000 and seven stockholders are disposing of the remaining 20,000. **Proceeds**—Company will use its proceeds, together with $500,000 bank loan, to finance paints and varnish plant now under construction.

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. Dec. 17, it was announced company negotiated bank loans in lieu of public financing.

• Republic Indemnity Co. of America, Tucson, Ariz.

Dec. 12 filed 20,000 shares ($10 par) common and 50,000 shares ($2 par) 50c cumulative preferred. **Underwriter**—If company finds it necessary to enter an underwriting agreement, the name of the underwriter will be filed by amendment. **Offering**—The shares will be offered for subscription to common stockholders of record on Jan. 10, 1947, in the ratio of ⅔ of a share of new common for each share owned and 1⅔ shares of new preferred for each share of common held. Unsubscribed shares will be offered by the company to the public. **Price**—$30 a common share and $10 a preferred share. **Proceeds**—The proceeds will be used to augment capital by an additional $300,000 and surplus by an additional $800,000 for business expansion purposes. **Business**—The company, which commenced operations last April, is engaged in a general casualty insurance and bonding business.

Republic Pictures Corp., New York

Registration originally filed July 31 covered 184,821 shares of $1 cumulative convertible preferred ($10 par) and 277,231 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.

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

Santa Cruz (Calif.) Sky Park Airport, Inc.

Dec. 6 (letter of notification) 53,000 shares ($1 par) common. Of the total 31,000 shares will be offered publicly at $1 a share, 16,000 shares will be transferred to Alex. Wilson and Wayne Voigts for their interest in Santa Cruz Flying Service, which is a flying field and airport, and 6,000 shares would be issued in cancellation of partnership indebtedness. No underwriting. For operation of airport business.

7-Up Texas Corp., Houston, Texas

Oct. 28 filed 71,141 shares (45c par) Class A common and 35,441 shares (45c par) Class B common. **Underwriting**—The underwriters who are also the selling stockholders are Dempsey-Tegeler Co., St. Louis, Mo.; Dittmar & Co., San Antonio, Tex.; Stifel, Nicolaus & Co., Inc., St. Louis, Mo.; and Rauscher, Pierce & Co., Inc., Dallas, Tex. Price by amendment.

Shatterproof Glass Corp., Detroit, Mich.

Oct. 28 filed 280,000 shares ($1 par) common. **Underwriting**—None. To be sold through brokers on over-the-counter market. **Offering**—The shares are issued and outstanding and are being sold by William B. Chase, President, and members of his family or trusts created by Chase or his wife. **Price**—At market.

Slick Airways, Inc., San Antonio, Texas

Dec. 9 filed 500,000 shares ($10 par) common and options to purchase 175,813 shares of common. **Underwriting**—None. **Offering**—The common shares are to be offered publicly. The options for purchase of the 175,813 shares of common are to be offered to original subscribers of the company's stock. It also will issue options to employees for purchase of 69,875 shares of common. **Price**—$10 a share. **Proceeds**—For purchase of equipment and for working capital.

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.

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.

Stone Container Corp., Chicago

Oct. 24 filed 300,000 shares of ($1 par) common. **Underwriter**—Hornblower & Weeks, Chicago. **Offering**—Of the total, company is selling 200,000 shares and stockholders are selling the remaining 100,000 shares. Price by amendment. **Proceeds**—Of net proceeds, company will use $1,225,000, plus a premium of $12,250, together with accrued interest, for payment of a bank loan, and $493,500, together with accrued interest, for discharge of its 10-year 6% debentures. Any balance will be added to working capital.

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. Offering date indefinite.

Swift International Co. Ltd., Buenos Aires, Argentine

Dec. 6 filed deposit certificates for 500,000 shares, par value 15 Argentine gold pesos a share. **Underwriters**—None. **Offering**—The shares will be offered for subscription to stockholders at the rate of one share for each three shares held. The subscription price will be supplied by amendment. Unsubscribed shares will be sold publicly or privately through brokers or dealers at a net price, after customary brokerage commissions, of not less than the offering price to stockholders. Price by amendment. **Proceeds**—Proceeds will be used to reduce outstanding bank loans, to finance additional investments in plant facilities and to provide additional working capital. **Business**—Holding company of subsidiaries engaged in meat packing and allied food lines.

Sydney County Council, New South Wales, Australia (12/30)

Dec. 9 filed an unspecified amount of 10-year sinking fund bonds, due Jan. 1, 1957. **Underwriting**—Kidder, Peabody & Co., New York. **Offering**—Terms of the offering by amendment. Price by amendment. **Proceeds**—For redemption at 102¾% on Feb. 1, 1947, of City of Sydney 25-year $8,170,000 5½% sinking fund gold bonds, due Dec. 1, 1955 The bonds originally were issued by The Municipal Council of Sydney to provide funds for the extension of its facilities supplying electricity to the City of Sydney. The electric properties of the Municipal Council were assumed by the Sydney County Council in January, 1936.

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 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.

Toledo (O.) Edison Co.

Oct. 25 filed $32,000,000 first mortgage bonds, due 1976, and 160,000 shares of ($100 par) cumulative preferred. **Underwriters**—To be determined by competitive bidding. Probable bidders include The First Boston Corp.; Halsey, Stuart & Co. Inc. (bonds only); Blyth & Co., Inc.; and Smith, Barney & Co. Price to be determined by competitive bidding. **Proceeds**—Net proceeds together with $4,500,000 bank loan and if necessary, the $5,000,000 to be contributed by its parent, Cities Service Co., will be used to redeem outstanding debt and preferred stock, involving a payment of $53,906,590, exclusive of interest and dividends.

United States Gypsum Co.
Dec. 11, filed 399,477 common shares ($20 par). **Underwriting**—None. **Offering**—To be offered to stockholders of record Jan. 4 at $60 per share in ratio of one new share for each three owned. Rights will expire Jan. 31. **Proceeds**—Will be applied to the contemplated $42,000,000 plant improvement and construction program.

U. S. Television Manufacturing Corp., New York
Nov. 4 filed 300,000 shares (no par) 25c cumulative convertible preferred and 150,000 shares of common (par $1) to be offered for special purposes. **Underwriters**—Names by amendment. Price $5 per share for preferred. **Proceeds**—For working capital and expansion of business.

Universal Corp., Dallas, Texas
Dec. 3 (letter of notification) 30,000 shares (no par) common to be offered to stockholders at $5 a share in the ratio of one share for each three shares held. **Underwriter**—Federal Underwriters, Inc., Dallas; and Trinity Bond Investment Corp., Fort Worth. For additional capital.

Victory Gold Mines Ltd., Montreal, Canada
Nov. 13 filed 400,000 shares ($1 par) capital stock. **Underwriter**—None as yet. **Price**—25 cents a share. **Proceeds**—For developing mining property. **Business**—Acquiring and developing mining properties.

● **Walker Vitamin Products Co., Inc., Mt. Vernon, N. Y. (12/23)**
Dec. 13 (letter of notification) 7,000 shares (50¢ par) B stock and 300 shares (50¢ par) A stock, on behalf of Myron Walker, Elizabeth N. Hume, Theodore Blanchard, and Gladys S. Hetherington. Price, $10.15 a share. **Underwriter**—Billings, Olcott & Co., New York, as broker. Proceeds go to selling stockholders.

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.

Western Air Lines, Inc. (1/13-17)
Nov. 27 filed 1,200,000 shares ($1 par) capital stock. **Underwriter**—Dillon, Read & Co. Inc. Price by amendment. **Proceeds** — Offering consists of an unspecified number of shares being sold by the company and by William A. Coulter, President and Director. The amounts being offered by each will be stated definitely by amendment and the total number of shares presently stated will be reduced if the offering consists of a smaller number of shares. Company will use its proceeds, together with a $1,000,000 bank loan, toward payment of its promissory notes, aggregating $3,926,946. In addition the company has obligations amounting to $1,667,000 which will be paid following the sale of the stock. It anticipates the completion of its equipment and facilities program next year with a required expenditure of about $8,600,000.

White's Auto Stores, Inc. (1/15/47)
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.

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.

Wyatt Fruit Stores, Dallas, Texas
Nov. 12 filed 5,000 shares (par $100) preferred stock. **Underwriter**—Rauscher, Pierce & Co. **Proceeds**—Will be used in part to equip three new cafeterias, to remodel its super markets and to increase working capital.

Prospective Security Offerings

(NOT YET IN REGISTRATION)
● INDICATES ADDITIONS SINCE PREVIOUS ISSUE

(Only "prospectives" reported during the past week are given herewith. Items previously noted are not repeated)

● **Alabama Great Southern RR.**
Dec. 18 reported company has plans under consideration for sale in January of equipment trust certificates for less than $2,000,000. Probable bidders include Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler.

● **Aluminum Co. of America**
Dec. 18 reported company plans to offer in January a new series of preferred shares in exchange for outstanding 6% cumulative preferred stock. A tentative basis of 1 1/10 shares of the new issue for each existing share with a dividend rate lower than 6%, is being considered. The exchange offer is contingent upon approval of 1,000,000 new shares by stockholders at a meeting Dec. 20. If the proposed exchange is approved, the company will retire the 910,756 outstanding shares of 6% preferred by exchange and by redemption at $110 a share plus accrued dividends. Probable underwriter: The First Boston Corp.

● **California Eastern Airways, Inc.**
Dec. 19 reported new financing for expansion of company's air cargo business possible, with Andre de Saint Phalle & Co. as underwriters.

● **California Oregon Power Co.**
Dec. 4 reported Standard Gas & Electric Co. again preparing to offer its holdings of 312,000 common stock (no par) through competitive bidding. On June 25 last company rejected bids submitted by Blyth & Co., Inc. and The First Boston Corp. (jointly) and Harriman, Ripley & Co., Inc.

● **Cincinnati, New Orleans & Texas Pacific Ry.**
Dec. 16 reported company has under consideration the issuance in January of about $2,000,000 equipment trust certificates. Probable bidders include Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler.

● **Cities Service Gas Co.**
Dec. 10 company official testified before FPC that banking interests had agreed that plans for a $30,000,000 financing of a proposed additional 405 mile 26-inch line from Grant County, Kan. to Kansas City, were feasible. Company planned to raise $20,000,000 by issuance of 20-year mortgage bonds and $10,000,000 through serial bank loans. Probable underwriters include White Weld & Co. The First Boston Corp.; Halsey, Stuart & Co. Inc.

● **Mountain States Power Co.**
Dec. 16 Standard Gas & Electric Co. will offer at competitive bidding its 140,614 common shares of Mountain States Power Co. Date of the offering will be set later. A previous sale, set for Sept. 4, was postponed because of unsettled market conditions. The Securities and Exchange Commission has shortened the customary 10-day period for receiving bids to six days to meet the company's request to take advantage of the most opportune time under existing market conditions to sell the securities. Probable bidders include Blyth & Co., Inc. and The First Boston Corp. (jointly); Harriman, Ripley & Co.; The First Boston Corp.

● **Moxie Co., Roxbury, Mass.**
Dec. 17 stockholders voted to revise the capital structure. Under plan there will be 1,000,000 (no par) shares common authorized in place of the present 513,522 shares of class B common, of which 286,024 are outstanding. The number of convertible preferred and class A preferred shares remains unchanged, although it is indicated that some of these shares may be converted into new common. The unissued common may be issued later at the discretion of directors, without being offered to stockholders.

● **Northern States Power Co. (Wis.)**
Dec. 16 reported company probably will sell a new lower-cost bond issue to replace $17,325,000 first mortgage 3½s, due 1964. Probable bidders include Smith Barney & Co.; First Boston Corp.; Harriman, Ripley & Co., Inc.; Dillon, Read & Co. Inc. and Halsey, Stuart & Co. Inc.

● **Oklahoma Gas & Electric Co., Oklahoma City**
Dec. 4 Standard Gas & Electric Co. is preparing to sell its holdings of common stock (in accordance with SEC regulations) and company at same time intends to sell approximately 140,000 shares of new common stock, proceeds of which will be used to reimburse treasury and retire bank loan used in redeeming the 7% preferred stock. Probable bidders will include The First Boston Corp.; White, Weld & Co.; Lehman Brothers and Blyth & Co., Inc. (jointly); Harriman, Ripley & Co.; Kuhn, Loeb & Co. and Smith, Barney & Co. (jointly).

● **Owens-Illinois Glass Co.**
Dec. 12 stockholders voted to increase authorized common stock from 3,000,000 shares to 4,000,000 shares (par $12.50). Additional shares may be issued later to finance expansion or acquisition of additional assets. Probable underwriters, Kidder, Peabody & Co. and Collin, Norton & Co.

● **Southwestern Public Service Co.**
Dec. 16 reported new financing to provide some $7,000,000 for construction expenditures for the year 1947 is indicated. Some portion of the funds required is expected to be raised through the offering, of additional common stock. Probable bidders include Dillon, Read & Co. Inc.

Union Pacific RR. (12/19)
Bids will be received until Dec. 19 (noon) by company at 120 Broadway, New York, for lowest rate at which bidders will provide funds for financing purchase of certain equipment to cost $6,916,200, to be sold under a conditional sale agreement.

● **Waitt & Bond, Inc.**
Nov. 29 stockholders approved a recapitalization plan designed to eliminate arrears of dividends on the Class A shares, and provide company with additional equity capital for expansion. 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.

Observations

(Continued from page 3205)

Christmas conclusion, resulted in an avalanche of agreements, that were technically completed, but which did not settle the core or foundation of basic questions and long-standing rifts.

Disarmament

Typical of an agreement which though formally reached, has left the results dependent on the future *action*—and not pleasant words—of the interested Powers, is that on disarmament. Despite the fanfare, and the relief that any joint friendly statement at all could be issued on the subject, it unfortunately must be realized that this recurring problem has not been settled; and that effective disarmament still is closely and inextricably intertwined with the political dynamics and behavior attending the differences between the "Have" and the "Have-not" (real or imagined) Powers. It must be remembered that pious talk about rearmament has never been lacking. Under the aegis of the old League of Nations an arms conference was initiated in February, 1932 and lasted for three full years. But practical measures guaranteeing effective execution were never agreed on; and so the well-equipped military aggressions of Hitlerite Germany and Japan tore the world asunder.

Unfortunately it seems that the very fact of the disarmament resolution being passed by unanimous vote is proof of its inocuousness, in the context of the present state of East-West affairs. The implementation of the pious resolution and the "formulation of practical measures" is left to that caldron of controversy, the Security Council. The full responsibility is now thrown into the Council's lap for establishing an international police force; for getting all foreign troops out of territories in which they don't belong; and for generally reducing the size of nationally armed forces, and for keeping them so reduced. For the latter, *inspection* is the vital prerequisite; but if inspection, control, and punishment are going to be subject to the Veto in the Council, the entire disarmament program is rendered abortive.

The certainty of future Russian obstruction to continuing effective cooperation along these lines is indicated by Mr. Gromyko's 11th-hour action after the assembly's close in blocking for at least three day's the submission of Mr. Baruch's Atomic Energy Commission report, because of Russian dislike of the provision for vetoless punishment—surely a *sine qua non* of effective control in this field and of disarmament in general.

The controlling East-West rift in disarmament policy, as revealed throughout the debate, is based on the underlying aim of the Soviet to get at our bomb secrets and at the same time to withhold the all-important information about the number of their troops based at home.

So, we must conclude that utopian aims for disarmament to take the place of balanced military might, as the means for keeping the peace, as in the past, actually depend on genuine good will between the important Powers.

* * * *

Apart from the indicated Russian opposition to continuing inspection, there may well be objection thereto by our next Congress. Not only in the case of atomic energy, but in general armament as well, there may well be popular as well as legislative objection to burrowing into commercial and industrial "know-how" by agents of an international commission.

The Veto Still With Us

Similarly in the case of the problem of the Veto, which has nettled UN ever since its compromise-adoption in the original Charter, definitive action has been postponed. After long debate, and insistence by Mr. Vishinsky that the would-be abolishers of the Veto are "war-mongers playing the game of the small powers," and that the privilege would not be waived by Moscow, a completely inocuous resolution was adopted. This consisted of a weasel-worded substitution by Australia, merely calling on the Big Five Powers "to consult so that the use of the veto should not impede the work of the Security Council". Hence it is difficult to infer that the Soviet will in the future make an about-face from its previous walk-taking and other manifestations of unilateral control over decisions, particularly when they affect her vital interests.

Trusteeship Still a "Warm" Problem

In the realm of trusteeship and colonial policy, agreement is as difficult as anywhere. Here, as in other fields, words do not mean what they are obviously saying. For Messrs. Novikov and Vishinsky, in their vigorous and incessant championing of the rights of the world's poor 15,000,000 non-self governing peoples, actually are zealously trying to protect Russia's interest in the worldwide power-politics struggle; while likewise our Mr. Dulles, in his legalistic dialectics over disposition of the former Japanese Islands, is looking out for the United States' "security" in the Pacific, pursuant to the policies of our Navy and War Departments.

Although the Trusteeship Council will hold its first meeting next March 15, the likely happenings there are in great doubt, as Russia has bitterly opposed every one of the eight trustee agreements which have been thus far submitted; holding they are both unconstitutional in terms of the Charter, and generally unfair. These agreements apply to the territories of New Guinea, Ruanda-Urundi, French Togoland, the French and British Cameroons, Western Samoa, British Tanganyika and British Togoland. In fact,, Mr. Gromyko has cast considerable doubt whether the Soviet will participate at all in the deliberations of the Council.

And in the long-term agenda in this sector there must be included the ever-present super-nettlesome problem of Palestine, with all its political, social and religious connotations.

Meddling in Internal Affairs

Agitation for action by the World Organization for interference with the sovereign rights of non-Big Powers, like other issues, is growing more turbulent rather than subsiding. In the case of Spain, not only have the Russian satellites finally gotten UN's Political and Security Committee to recommend the recall of all heads of diplomatic missions from Spain; but Monday night at New York's Madison Square Garden the delegates from Poland, Czechoslovakia and Yugoslavia demanded further future action, even to the extent of sanctions—always an inflammable act. In the case of South Africa, following the complaint of India, the Assembly passed a vote of censure for racial discrimination.

Apart from the real motives for such interfering actions—whether they be a phase of power-politicking and in what proportion—they set a precedent that is both very dangerous and a guarantee of continuing controversy. Not only is it practical procedure, but it is guaranteed by the Charter, that the Security is to be limited to calling member nations to account for international aggression, and not to interfere in matters of internal administration. If this principle should be abandoned, there will be no future limitation on Big Power agitation for meddling with the internal affairs of small Powers for the former's own individual aims (as the football that has been made of Spain pursuant to the East-West jockeying for territorial position in the Western Mediterranean). And if the South Africa action is to be a precedent, how can UN in the future be stopped from taking similar action against the U. S. for our racial discriminations, or against Russia and other members with authoritarian regimes for pursuing undemocratic action?

* * * *

Facing with realism the fact that these and lesser issues are still live, is not cold-water throwing, but constructive in guiding public opinion to goad our respective diplomats into future behavior that will lead to a state of world harmony.

Monetary Fund Announces Initial Par Values of Member Currencies

(Continued from page 3208)

minican Republic. Uruguay is still in the process of determining its par value. The case of the Dominican Republic is one of a country which at the moment has no currency unit of its own. It is in process of setting up a new monetary system, and this is expected to take several more months, Mr. Camille Gutt, Managing Director of the Fund, stated today. Questioned as to the reasons for Brazil's failure to fix a par value at this time, Mr. Gutt's answer was very general and unilluminating.

The Uruguayan Government, which is on the way out, has been proceeding with exceeding caution. Its decision to postpone fixing the par value of its Peso reached the Fund only about half an hour before the deadline. Apparently the present government considers it necessary for the Congress to pass upon the par value.

The Fund won't be ready to begin operations before March 1, Mr. Gutt stated. While he did not discuss the reasons for the delay, it is known that many of the member countries are not yet equipped with the necessary financial machinery, such as the setting up of depositaries to do business with the Fund. The Fund cannot very well operate as a World Body if there are important blank spots on the global monetary map, even though under the Fund's Articles of Agreement, that institution may commence operations when it has in hand subscriptions representing 65% of the quotas of the eligible membership.

At any rate, the Fund has decided to postpone commencement of operations until March, presumably in the thought that by then it, as well as the world, will be in a somewhat better condition. It is generally appreciated that the Fund is a rather delicate machine not designed for the storm and stress which still tosses the financial and economic world.

The "Chronicle" is informed that there are no plans as yet to use the authority to establish Fund offices outside of Washington.

Mr. Gutt was at pains to explain to questioners that the announcement of the table of par values does not mean that the Fund guarantees these parities. He said that it is up to the individual members to maintain the parities of their selection. The Fund's duty, he said, is to see that its resources are not imperilled. He made it clear that the Fund considered that it had no choice but to accept the initial parities suggested by the members. Since there is no way of knowing what par value will be suited to the circumstances of any currency at some future date. The world is still too unsettled.

The Fund announcement does not mean, he added, for emphasis, that the Fund is freezing currencies at their present relationships.

Another point Mr. Gutt made was that countries with multiple exchange rates merely represent the rates which the Fund will use in dealing in these particular currencies.

Moscow Silent

Asked about Russia, Mr. Gutt revealed that no word has been received from Moscow about that country's entry into the Fund.

Whether any of the nine "postponing" countries will be ready with its par value by the time the Fund starts operations in March, Gutt did not reveal.

In view of Gutt's statement Brazil is not satisfied with its present par value. It is being assumed in some quarters that Brazil already has discussed the matter with the Fund. Albeit informally, suggesting some different par value to which the Fund would not agree. Asked by a correspondent whether the Fund had rejected a Brazilian proposed par value, Mr. Gutt answered in the negative.

The Fund is not likely to abolish currency black markets by its present action, Mr. Gutt explained to an inquirer.

His press conference was held in the comfortable carpeted office of the Fund on the ninth floor of 1818 H Street, an office building which the State Department took over during the war and from which the twins it helped hatch, the Fund and Bank, are gradually squeezing it out.

Present with Mr. Gutt were his Belgian assistant, M. Rolin Jacqueins, and two former United States Treasury officials, V. Frank Coe and Edward Bernstein, both now attached to the Fund. A large contingent from the press attended the unveiling.

Since the statement issued by the Fund has been most carefully worked out so as to satisfy the different home requirements of the 12 Executive Directors. It should be studied by all interested and therefore is here presented in full (with the exception of the table of par values which has become available too late for inclusion in this issue of the "Chronicle").

Official Statement

The official statement concerning initial par values follows:

"The International Monetary Fund will begin exchange transactions on March 1, 1947. The transactions of the Fund will be at the initial par values which have been determined in the manner laid down in the Fund Agreement. The par value of each currency is stated in the schedule below. Eight of the 39 members of the Fund—Brazil, China, the Dominican Republic, Greece, Poland, Yugoslavia, France in respect of French Indo China and the Netherlands in respect of the Netherlands Indies — have requested, in accordance with Article XX, Section 4 of the Agreement, more time for the determination of their initial par values, and the Fund has agreed. Pending the completion of certain legislative proceedings in Uruguay, the initial par value of its currency has not yet been definitely established.

Unprecedented Step in Fixing Rates

"This is the first time that a large number of nations have submitted their exchange rates to consideration by an international organization and thus a new phase of international monetary cooperation has begun. The major significance of the present step is not in the particular rate of exchange which are announced, but in the fact that the participating nations have now fully established a regime wherein they are pledged to promote exchange stability, to make no changes in the par values of their currencies, except in accordance with the Fund Agreement, and to assist each other in attaining the general objectives of the Fund.

Proposed Par Values Accepted

"The initial par values are, in all cases, those which have been proposed by members, and they are based on existing rates of exchange. The acceptance of these rates is not, however, to be interpreted as a guarantee by the Fund that all the rates will remain unchanged. As the Executive Directors of the Fund stated in their first annual report, issued in September: 'We recognize that in some cases the initial par values that are established may later be found incompatible with the maintenance of a balanced international payments position at a high level of domestic economic activity. . . . When this occurs, the Fund will be faced with new problems of adjustment and will have to recognize the unusual circumstances under which the initial par values were determined. It is just at such times that the Fund can be most useful in seeing that necessary exchange adjustments are made in an orderly major and competitive exchange depreciation is avoided.'

Price and Wage Disparities Recognized

"The Fund realizes that in the present exchange rates there are substantial disparities in price and wage levels among a number of countries. In present circumstances, however, such disparities do not have the same significance as in normal times. For practically all countries, exports are being limited mainly by difficulties of production or transport, and the wide gaps which exist in some countries between the cost of needed imports and the proceeds of exports would not be appreciably narrowed by exchanges in their currency parities. In addition, many countries have just begun to recover from the disruption of war, and efforts to restore the productivity of their economies may be expected gradually to bring their cost structures into line with those of other countries. Furthermore, for many countries now concerned with combating inflation, there is a danger that a change in the exchange rate would aggravate the internal tendencies toward inflation.

"In view of all these considerations, the Fund has reached the conclusion that the proper course of action is to accept as initial par value the existing rates of exchange."

Our Reporter's Report

Investment bankers are looking forward to the New Year as one which will produce an immense run of public utility equity offerings, not so much in the form of new issues, but rather largely a consequence of sales of portfolio issues under the operation of the "death sentence" clause of the Holding Company Act.

Insofar as debt securities for this industry are concerned, the consensus is that new emissions very likely will fall considerably short of the high marks of 1944 and 1945. The reason here is that in many cases the refinancing of higher coupon bonds has been largely completed and demands for new money may be deferred by circumstances which tend to discourage new construction beyond essential needs.

But in the case of equity issues, a compilation contained in a report of the Public Service Securities Committee of the Investment Bankers Assn., lists a total of 21 companies which must divest themselves of certain of their holdings under the law.

While this particular list in itself is not necessarily complete, it means that either through underwriting or by offering of rights to shareholders, these firms must dispose of a total of some 15,000,000 shares of common stock with a market value, at current levels, of approximately $300,000,000.

And, it is interesting to note, these stocks must be sold through the medium of competitive bidding, which means that the bankers are going to be mighty busy calculating values and markets in the months ahead.

Cause for Concern

Always standing ready to take advantage of an opportunity to make a dollar, the bankers nevertheless are inclined to fear that much confusion may attend the marketing of this vast volume of stocks unless no precautionary measures are taken.

The IBA group's report suggests that "timing of the sale of these issues is a matter of concern to the investment banking industry, and unless some means can be found to provide an orderly distribution, through no fault of its own the marketing machinery of the industry may not be equal to the task."

It is important, the IBA committee notes, that the management of the holding companies, collaborating with the Securities and Exchange Commission, develop some program which will result in an orderly process of bringing the issues to market.

Australians a Success

The marked success which characterized the recent offering of Commonwealth of Australia's 20-year 3½% bonds is expected to encourage the Sydney County Council to prepare for a small new issue shortly.

This undertaking, involving $8,500,000 of 10-year sinking fund bonds, has already been started through the process and is at present in registration with SEC.

The Commonwealth's $25,000,000 offering, which was brought to market at a price of 98½, was not long in moving out to investors and has ruled at a sizable premium since.

Pennsylvania Turnpike 2½s

Three banking groups sought the $46,000,000 issue of new bonds brought out by the Pennsylvania Turnpike Commission on Tuesday but the competition was not too keen, judging by the range of bids.

The successful group paid the commission a price of 100.939 for a 2½% coupon, and proceeded to reoffer the bonds at a price of 102½, with the reception being such as to result in the complete disposition of the loan within a few hours.

The next nearest bid was 100.70 by a group which specified a coupon rate of 2.60%, while the third bid was 100.15 for the same coupon.

Congestion Clearing

The underwriting fraternity is no longer seriously concerned with the matter of unsold securities which accumulated in the wake of the market's collapse back in September. Good progress has been made in working off such issues.

Reports had been current that such unsold issues were being rapidly whittled away, but it remained for James J. Caffrey, SEC Chairman, to sound the most recent note of reassurance.

Talking to newspapermen at the Florida convention of IBA he was asked about the fiscal condition of underwriter firms and dealers in view of the survey which the agency had conducted, and he said that the findings had been "good" that the total of undigested securities afloat is now well below normal and still going lower.

Dr. Frey Joins Petroleum Institute

After nearly 19 years of government service, Dr. John W. Frey has resigned effective Jan. 31, next, to become Director of the Division of Marketing of the American Petroleum Institute, Acting Director Ralph K. Davies of the Oil and Gas Division announced on Dec. 15. Accepting with regret the resignation of Dr. Frey, who had been one of his special assistants for the past four and a half years, Mr. Davies said in part:

"You have served in the Federal Government over a long period of years—faithfully and with distinction—and I greatly dislike the prospect of the Oil and Gas Division losing your able assistance over the period ahead.

"However, I fully understand your reasons for this action and, in the circumstances, cannot well offer resistance to them. Your new association provides an interesting and challenging field of work and one in which you will continue to be able to contribute to the general welfare."

Dr. Frey, a native of Depue, Ill., was graduated from the University of Chicago in 1919 and the University of Wisconsin in 1926, when he received the degree of Doctor of Philosophy. After engaging in research work for the Bureau of Mines in the summer of 1928, Dr. Frey went to the Bureau of Foreign and Domestic Commerce later the same year, remaining there until 1933, when he became advisor to the Deputy Administrator of the National Industrial Recovery Act in the marketing section. After assisting in drawing up the Code of Fair Competition for the Petroleum Industry, Dr. Frey was transferred to the Department of Interior, which administered the code. Upon liquidation of the N.I.R.A., Dr. Frey was transferred to the Petroleum Conservation Division of the Department of the Interior. He served as Assistant Director of Refining and Marketing of that Division from April, 1936, until May, 1941, when he was transferred to the Office of Petroleum Coordinator for National Defense as Director of Marketing. In July, 1942, he became Special Assistant to the Deputy Petroleum Coordinator, in the agency which later became the Petroleum Administration for War. Since the liquidation of that wartime agency, Dr. Frey has been completing the official history which will be published early next year.

Army Building Program

Immediate action is to be taken on $60,069,752 worth of military construction, including building or conversion of 7,713 temporary dwellings, authorized by Army engineers, according to Associated Press Washington advices Dec. 7, which added that material obtained in dismantling war camps would be used for housing units. The War Department estimated that the dwelling construction will meet about 15% of the Army's current needs, at a cost of about $41,329,500. Construction for research projects will consume the balance of the authorized amount.

Wall Street Bankers and Business Analysts Changing Views on Inevitability of Market Bust

(Continued from page 3204)

satisfy their wants made desperate by the shortages created by the war, they declared, was not moving as it should to the market places of the world.

Developments of the last few months—of the last few weeks almost, it could be said—have altered the business picture considerably, however, they point out now. It is probably too early yet, they say, to be really positive about what certain straws in the wind may mean. Some feel confident that another month may reveal more clearly and in sharper outline the actual shape of things to come. That business has given some signs of having turned the proverbial corner away from its major difficulties already is readily admitted by them, however.

To the question often asked, "Where will prices stand in relation to former levels?" One banker gives the reply that the general level of prices will fall—must fall under the pressure of the mountain of goods which is beginning to find its way to market—but that the fall particularly at the points where it occurs, will be healthy. The greatest declines may be expected, he believes, in agriculture, textiles—the soft goods in general—and in some scattered industrial lines, such as small radios produced by not-well-known manufacturers. No decline in prices can be expected, however, in the end products of large-scale heavy industry where costs have risen so, he thinks.

The retail trade, according to another banker, is taking advantage of the heavy business demand for Christmas goods to dispose of all their high cost merchandise now while they can. It remains to be seen, he says, whether in January the merchants place orders with the manufacturers for the more standard type of lower-priced items which in the past have usually been found in great abundance and variety on their shelves. Retail merchants will have to realize, too, among other things, that consumers no longer want to buy such items as men's "sport shirts" in place of the regular white shirts and that certain substitutes to which the public has become accustomed are now more generally preferred than the original products, he points out.

The changed complexion of Congress has given rise to the hope, too, that now much needed revisions of labor legislation can be made without delay. The Wagner Act, it is held, is unwise legislation. Some apprehension exists, however, that the Congressmen may, in haste, pass equally ill-considered revisions tending much too far in the opposite direction. Congress should not pass any law prohibiting the right to strike, for example, one banker believes. What is needed, above all, is legislation that will discourage labor leaders from approaching the conference table with the cockiness and insolence they have often displayed there, it is felt. Employer's property rights should be restored to their rightful place in the economy, it is thought. Any news concerning the intentions of Congress on labor legislation coming out of Washington is being read avidly by all of Wall Street, one of the bankers points out.

The unions will not be as successful this time in obtaining increases in wage rates should they press for another round of wage demands, the bankers and the analysts predict. Public opinion is stiffening against unreasonable union demands upon management and this influence will surely make itself felt upon such labor-management deliberations concerning pay that may be held during the coming few months, they say. Unions that push their demands too far must figure upon going on strike because management won't give in to their unreasonableness, they point out. Strikes in some of the major industries, of course, could have the effect of destroying the possibility for an immediate improvement in the business outlook, they warn, a fact which could have unfavorable repercussions upon labor as well as upon industry.

With the world demand for goods as great as it is because of the terrific destruction wrought by the war and with the market as restricted in favor of the United States as it is because the war left our productive mechanism intact, the stage is indeed all set for a high level of both production and employment in this country, one analyst reasons. The factories of Germany and Japan especially were razed to the ground in this war, he says, and the economies of these countries may never fully recover. The United States alone of all the major industrial powers really has the necessary facilities today for supplying all the great markets of the world, he is convinced. The foreign business which the industrialists of Germany and Japan used to do, too, the United States can now take over, he thinks.

Improvements in the international political situation also justify greater optimism regarding possible trends in business, one prominent banker holds. The large-scale withdrawal of Russian troops from German and East European territories in general and the failure of the French Communists to seize control of the government, he points out, can only tend to strengthen the hope that some observers have dared to entertain, that the rebuilding of the European economy along traditional lines might proceed without undue delay. If the Russians should decide to withdraw completely from the East European zone, including even the area in and around Yugoslavia, Tito himself might find it difficult to maintain his position, too, he feels. However desirable it may be in Western eyes for Russia to be vacating positions she has held in East Europe, still it is a little puzzling to many observers, he points out, why Russia should be calling her well-fed, well equipped armies from the lands upon which they have been living back to the home country. So far as French politics is concerned, he feels, January also is the month to watch. French politics can be explosive and developments there will be watched now with more than usual interest, he points out.

In his opinion, too, some concern is being felt over whether England will be able to complete her reconversion process before she exhausts the funds provided by the American loan. Germany will certainly stage a comeback someday, he is sure. Sharing views known to be held in certain informed academic circles, he thinks that it would be impossible to reduce Germany to an agricultural economy. The Morgenthau plan for disposing of Germany is not generally accepted today, he feels. To wipe out German industrialism it would be necessary first to exterminate the German people, he holds.

In recent weeks, too, the decision of Wisconsin to prohibit the sale of the securities of the International Bank within her borders presages ill for the future of American foreign trade, one Wall Street analyst who follows the foreign situation rather carefully points out. In fact, he says, the resignation of Eugene Meyer as President of that Bank is probably a clear-cut indication that he himself feels that the Bank faces a hopeless situation. If so, then his resignation can only give force to the justice of the Wisconsin action, he believes. Certainly, unless the Bank lends money to nations for more constructive purposes than just providing their armies with new uniforms, the money will never be repaid and the bank must surely fail, he is convinced.

Wisconsin might have acted with greater wisdom, however, if she had used her good offices to compel a settlement of some sort by the various countries now looking for financial aid of the old obligations upon which they have defaulted and to insist upon proper provision for the amortization of the loans to be made, he feels. Foreign trade amounts to only 10% of the total volume of business done by this country but this 10% is the margin of profit, he points out. Only totalitarian governments can get along without foreign trade, he feels, and this only under conditions that would prove intolerable in this country. The expanding economy of the United States needs a generous amount of foreign trade, he thinks. Most foreign nations do observe the terms of their financial obligations religiously, notwithstanding the experience which investors in this country have had with some nations, and there is no reason why the securities of the International Bank can't be made attractive, through safeguards, to American investors, he feels. It is significant that Argentina has agreed to give the Spanish Government a loan proportionately greater than the one which the United States has extended to Great Britain, he believes. When sound amortization principles are followed in the granting of foreign loans, healthy international trade results, he thinks.

The greatest need of the moment in business—as in the political setting in which it is placed—is for intelligent leadership, both the close observers of the industrial scene and students of business generally agree. Recent strength in the stock market averages probably reflects to some extent the better tone of feeling concerning the prospects for business in view of certain improvements in the political situation and other factors, but still the analysts closest to the scene hesitate to state positively that the correlation between stock market averages and business trends is as close as that. Many of the analysts anyhow are in complete agreement that the business picture has brightened considerably and, given wise direction, can continue to maintain production and employment at high levels.

INDEX

For detailed index of contents see page 3203