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Great Britain's Export Drive Is One-Sided

By PAUL EINZIG

Dr. Einzig analyzes Britain's export predicament arising from excessive sales to "soft currency" countries and insufficient sales to U. S. and other "hard currency" nations. Holds par values of soft currencies are overvalued and will lead to losses and states it is now realized by British that exporters should divert shipments to "hard money" countries.

Dr. Paul Einzig

There is a growing interest in Britain in the essentially one-sided character of the much-advertised export drive. It is now realized that the result of export surpluses to countries which do not pay for them either because they have no gold reserves or because they are Britain's creditors—is in practice simply to relinquish a large part of the proceeds of the dollar loan in favor of those countries. For there can be no doubt about it that the deficit of Britain's trade balance with "hard currency" countries is to a by no means negligible extent due to

(Continued on page 611)

The Outlook for Income And Spending

By RAGNAR D. NAESS*

Partner, Naess & Cummings, New York City

Asserting our economy will continue to develop along same lines as late in 1946 and is close to postwar peak Mr. Naess points out, as powerful economic forces: (1) a high rate of capital formation; (2) rapid accumulation of inventories; and (3) release of heavy consumer spending. Holds these factors will provide large employment and incomes and their combined effect will be about same as last year. Sees continuation of consumer spending at high level with improved situation for consumers' durable goods.

We are entering the year 1947 under conditions that are in many respects unprecedented in our economic history. Many comparisons have been made between the present situation and the conditions after the First World War and, perhaps, the present situation is more similar to the period immediately following the First World War than any other period that comes readily to mind.

Ragnar D. Naess

New Records in the Midst of Widespread Apprehension

In terms of the national income and spending concepts we are making new records for all time, including the war years. Employment is at the war peak and every economic indicator reads prosperity in capital letters. In the face of all this we hear that the situation is unhealthy and ripe for a

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*An address by Mr. Naess at the 59th Annual Meeting of the American Economic Association, Atlantic City, N. J., Jan. 24, 1947.

Will World Bank Securities Meet Accepted Investment Standards?

By MARSHALL H. WOOD

Mr. Wood holds two factors on which Bank's success depends are: first in importance, quality of management; and second, worldwide economic and political conditions. After analyzing operating conditions and regulations in great detail, he concludes under reasonably good management, and in absence of complete breakdown of international fiscal relationships, Bank will remain solvent. Asserts U. S., despite public impression to contrary, has full control over amount and manner of usage of dollar loans; and burden of collecting debts cannot be our sole responsibility.

The success of the International Bank for Reconstruction and Development (commonly called the World Bank) basically depends on two factors. The first is the quality of the management of the Bank; the second is worldwide economic and political conditions. Management is placed first for emphasis. The Bank itself will be an important influence in world economic affairs and under astute non-political management can contribute much towards international economic stability. Moreover, under such management the Bank's affairs

Marshall H. Wood

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A detailed listing of the Bank's regulations will be found in "a statement" by U. S. Executive Director Collado appearing on page 599 of this issue of the "Chronicle."—Editor.

Current Prosperity Is Normal

By WILLIAM W. CUMBERLAND*

Partner, Ladenburg, Thalmann & Co.

Governor, Association of Stock Exchange Firms

Economist holds Americans are needlessly frightened by existing boom which actually should be considered normal for a dynamic economy. Holds constructive action by Republican Congress would bring about sustained employment, improved efficiency, moderately declining commodity prices and corporate profits reflecting high production. Concludes stock market is not dangerously high.

Americans tend to think and act in extremes. They are now frightened by existing prosperity. Yet our present high level of production and employment should be regarded as normal for a dynamic economy, not as a threat nor as a prelude to depression.

W. W. Cumberland

Thus far high production and employment have been sustained by a combination of accumulated shortages resulting from the war and by the three-fold increase in liquid assets of our population. Neither of these factors has exhausted its potentialities. The outlook for heavy industry in general is favorable. Demand is in sight during all of 1947 for full production of steel, automobiles, electrical equipment, railroad equipment, building materials, paper, non-ferrous metals, petroleum and other major items of

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*Abstract of an address by Mr. Cumberland, at the Associate Members dinner forum at the New School for Social Research, N. Y., Wednesday, Jan. 29, 1947.

"Boom or Bust" Depends on Government

By ROBERT R. WASON*
Chairman of the Board, NAM

NAM Chairman declares there will be no slump in 1947 unless made by the government, the talk of inevitable depression being "silly." Concludes "if governmental sell-out to labor does not choke us, we are on the threshold of the most glorious period of man's eternal struggle to improve his economic well-being."

Recently President Truman predicted that depression would result from rising wages and prices. John Steelman offered the same prediction. They should know. Their rigid controls of the economy have long prevented the free exchange of goods and services. In American history, depressions have resulted from three major causes:


Robert R. Wason

One, an inadequate flow of private capital into investments that make jobs. This is caused by Governmental restrictions on profits, be they high taxes, price controls or other limitations on venture capital.

Two, mismanagement by the Government of the money and credit system, including the public debt. The more money the Government spends beyond its income, the less valuable the Government's money and its bonds become. Money ceases to be a serviceable vehicle to move goods.

The third cause of depressions in America is the granting or perpetuation of special privileges. These grants, whether to labor or to agriculture or to industry, disturb balance within the economy.

All three causes for depression have existed in America in extreme form for the past dozen years. It is not and it never was within the power of industry to create a depression. Depressions are created only by Government mismanagement.

Now a Republican Congress is in power, elected by the protests of the people. The question is again asked, "Are we headed for boom or depression?"

The American people are more aware of our economic ills than the Congress that governs us. In the last election, the people went farther to the right than the politicians of either political party.

Until the election, Government mismanagement was creating inflation. OPA, by preventing pro-

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*Talk by Mr. Wason before Associate Members' Dinner Forum, New School for Social Research, Jan. 20, 1947.

America Has Lost Much Of Its "Good Form"

By PAUL MILLIANS*
Vice-President, Commercial Credit Corporation

Pointing out new ideologies, particularly those relating to individual self reliance and fiscal policy, have caused America to lose its economic pattern, Mr. Millians contends two grave problems confront the nation, viz: (1) to find taxes to carry present huge public debt; and (2) to uproot false idea that size of debt does not matter. Holds present taxes already destroy incentives, stunt economic growth, and impair purchasing power, and yet they are inadequate for sound financial planning and budget balancing. Stresses importance of public debt management.

Felix Morley writing in "Nation's Business" sometime ago reminds us that in Oscar Spengler's book, "The Decline of the West," in which the loss of representative government in Central Europe was predicted years before it happened, Spengler gave considerable attention to form. He felt that with a nation as with an individual, form is all-important; and Spengler points out that practically everything that has been achieved in world history has been the product of living unities that found themselves in good form.


Paul M. Millians

And it is in this thought that we find the over-riding theme for our discussion here today . . . America has lost much of its "Good Form."

Individual self-reliance is historically basic in the American form. With the exception of community effort—a kind of communism, if you please, which was essential to survival of the Plymouth settlement—the basic historical American form had been one of individual self-reliance and individual achievement. Self-reliant men and women beckoned only by a hope-filled future pioneered across the continent, fought wars, overcame depressions . . . 1791, 1819, 1837, 1857, and so on down through history . . . and between wars and depressions built a nation in which more people enjoyed better health and a higher standard of living than any other people under any other form of government. Individual achievement was high. Coal miners' sons became presidents of large steel companies. Railroad rodmen became railroad presidents. Sons of farmers became heads of large industrial and banking corporations. Poor emigrant boys became great scientists.

A Change of Form

But faced with another depression in 1929 the good American

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*An address by Mr. Millians before the Georgia Association of Credit Men, Atlanta, Ga., Jan. 16, 1947.

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Price Drop Probable, Declares Commerce Department Official

Paradiso warns of dissipation of consumer incomes by high prices. Holds recent swings, sharpest in history, have resulted in drastically distorted price structure. Predicts readjustment will come about through (1) Lessening of demand for nondurables; (2) Inventory liquidation; and (3) Lowered costs through increased production.

The rate of price increases from June to December 1946 was the greatest in the nation's history for any similar time period, and many factors indicate that prices may drop in 1947, according to Louis J. Paradiso, Chief of the Business Structure Division, Office of Business Economics, Department of Commerce.

Louis J. Paradiso

Speaking in New York City last evening (Wednesday) at the Associate Members dinner forum on "The Economic Outlook for 1947" at the New School for Social Research, Mr. Paradiso said that he expects consumer demands for goods and services to continue strong for several years to come.

"Since the prospects for good business depends very heavily on the strength of these demands, the main problem is that of maintaining the 'real' purchasing power of consumers," Mr. Paradiso said. "This means the prevention of a weakening or dissipation of consumer incomes by the continuation of the current high prices in many segments of the economy.

Citing overall figures on recent price increases, Mr. Paradiso said that the average wholesale price of all commodities rose by 26% from June to December 1946, while prices of consumer goods increased by 15%.

Sharpest Price Increases in History

"Those are the sharpest rates of price increase which have occurred in any six months period of our history, exceeding the rates of increases in the three previous periods of inflationary price movements—1812-14; 1861-65; and 1916-20," Mr. Paradiso said.

"The sharp price movement

(Continued on page 631)

Overhauling the Securities Acts

SEC conferences to recommend "desirable and workable" amendments to the Securities Acts. Public interest requires repeal of Maloney Act, thus abolishing NASD evils of secret meetings, control of spreads. Trial by competitors arraigned.

The press has been carrying an account of what is reputed to be the forerunner of a revision of the Securities Acts.

It is said that this was the subject of a conference between James J. Caffrey, Chairman of the Securities and Exchange Commission, and President Truman, behind which was the intent to develop "desirable and workable" proposals amending the Acts of 1933 and 1934.

That this policy should be followed now by an administrative body shows a distinct influence of the last election.

The people appeared to be in no mood for trifling and have directed by the mandate of their franchise that busi-

(Continued on page 628)

Inflation Danger—Heritage of War Finance

By WOODLIEF THOMAS*

Director of Research of the Federal Reserve System

Asserting present inflationary developments have their seeds in war finance, Dr. Thomas holds central problem of Federal Reserve System in future is to reestablish lost control over bank credit expansions. Contends higher interest rates would not discourage private borrowing from banks but would cause sale of government securities to Federal Reserve. Proposes as further credit controls, additional instruments of credit regulations already suggested by Federal Reserve System such as (1) increased bank reserve requirements; (2) requirement of a secondary reserve of Treasury short-term notes equal to a specified percent of demand deposits; and (3) a limitation on holdings of government long-term bonds by banks. Says proposals are not revolutionary or drastic, but stresses London commentary, "they would mean a control of commercial banks far beyond what is contemplated in Socialist Britain."


Woodlief Thomas

One of the inevitable consequences of war is the creation of a vast supply of money and other liquid assets and the exposure of the economy to the threat of serious inflation. The amounts of such assets created in the second world war surpassed all previous records, and this superabundance of money, unless wiped out by inflation and revalorization, will continue for many years. Careful monetary and fiscal regulation will be needed for many years to come to avoid, at the worst, serious inflation and collapse or, at the least, instability in prices, credit, and interest rates. As a result of this heritage of war finance, the Federal Reserve System is no longer in a position to exercise effective control over bank credit expansion—the main function for which the System was founded—and faces the problem of finding ways to reestablish and maintain its capacity to influence credit developments.

War is inevitably inflationary because people receive incomes for producing and supplying goods which are not available for purchase. War expenditures have to be financed and no country has yet been willing to impose upon itself a tax burden that will take as much as half of current income, the amount required in this country during the war just ended, or even to adopt a program of borrowing out of the people's savings the balance between expenditures and taxes. Throughout the war,

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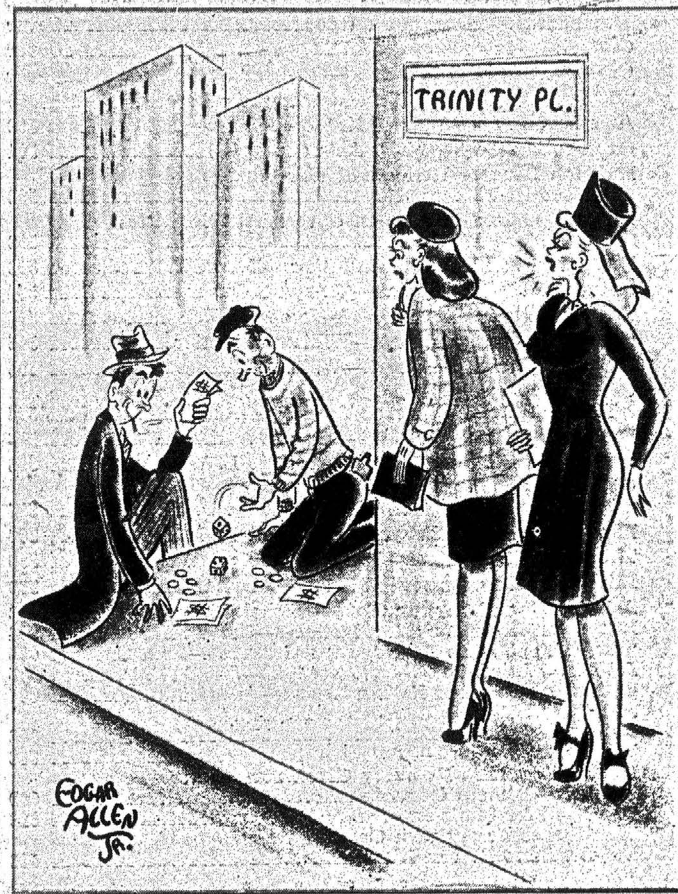
*A paper read by Dr. Thomas before the American Economic Association, Atlantic City, N. J., Jan. 25, 1947.

BUSINESS BUZZ



"—And He Told Me He Had a Seat on the Curb!"

Fallacies of Fixed Yields on Government Securities

By J. BROOKE WILLIS*

Assistant Professor of Banking, Columbia University

Dr. Willis attacks wartime pattern of yields on government securities on ground such policy implies surrender by Federal Reserve of quantitative credit control. Denies fixed interest pattern is essential to keep down either Federal debt burden or excessive bank earnings. Says danger of heavy losses to banks arising from higher rates on government securities has been exaggerated, and a policy of "freezing" interest rates requires expansion of inflationary money supply. Concludes extension of wartime interest pattern leads to undermining loan functions of commercial banks and ultimately to selective controls over all types of lenders.

The aim of this paper is to examine the arguments for and the implications of the maintenance of the wartime pattern of yields on government securities.[1] The pattern is roughly defined by ⅜ of 1% on 90 day Treasury bills, ⅞ of 1% on one year Treasury certificates of indebtedness, and 2½% on the longest term bonds. This is substantially the pattern which was adopted fortuitously early in the War to aid in financing the War by means of bank borrowing at low cost. The arguments adduced for this policy are inconsistent and are not convincing. The extension of this policy during peace times, particularly when full employment exists, implies the complete surrender by the Reserve System of quantitative control over the supply of money and eventually necessitates the curtailment of the present day lending functions of commercial banks. Such a policy affords no satisfactory alternative quantitative basis of monetary control which control is made to depend entirely upon the management of Treasury receipts and expenditures.

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1 This policy is set forth in the *Annual Report* of the Board of Governors of the Federal Reserve System for the year 1945.

*A paper delivered by Dr. Willis before the American Economic Association, Atlantic City, N. J., Jan. 25, 1947.

Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

Friendlier labor-management relationships of late have encouraged Washington to be sanguine that industrial peace may become a reality in 1947. That's important, will lure Congress toward the center of the road in labor legislation. Extremists on both sides of the middle will be tagged as disturbers, will find themselves futile unless John L. Lewis promotes more trouble with another coal strike. Even in that potentiality there's no assurance Lewis could destroy this fledgling friendship between employer and employee.

* * *

General labor legislation will remain in amorphous phase until April. In the interval you can expect: (1) additional amicable adjustment of labor disputes; (2) agreement by labor and management spokesmen testifying before Senate Labor Committee in hearings now under way that Congress should avoid tough, irritating legislation; (3) mounting tendency to boycott the soapbox reformers and follow the practical politicians.

* * *

Portal pay legislation won't be forestalled by the peacemakers. Congress is convinced employers should be protected from this type of exploitation, will strive to legislate such protection. But the average lawmaker remains in a fog on the proposition, has no clear idea how to advance.

Republican leadership is presently demonstrating that it can be tough and temporarily effective. Senate GOP rebels were twice big-sticked when the Taft crowd bulldozed through bills continuing the special War Investigating and Small Business Committees. House Republicans who timidly sought a re-definition of "luxury" taxes were squelched when steersmen brought from the Rules Committee a gag rule limiting debate and barring floor amendments on the bill extending war-hiked excise taxes. But those demonstrations left sores that may be hurtful to the Republican majority when it needs unquestioning loyalty in pinches that are certain to come.

* * *

Big issue in the developing

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Public Debt and Social Institutions

By DONALD B. WOODWARD*

Second Vice-President, Mutual Life Insurance Co. of N. Y.

Mr. Woodward discusses effects of public debt on social institutions. Argues large debt contributes toward defunctionalization of family and of church. Holds national debt also destroys productive concept of business organization. Sees more dependence and closer dependence of financial institutions on government because of large national debt, and speaks of emergence of "a Central Bank" controlling and planning long-range as well as day-to-day conditions. Concludes these developments need not be viewed with alarm.

I

The institutions of society, the effect upon which of the public debt I am supposed to discuss, have been identified by Mr. Robert B. Warren as the family, the church, the business organization and the state. Around and through these four, the individuals of society have organized themselves for the accomplishment of the ends they seek. And around and through these four it is obvious that the tendrils—in deference to Mr. Chase's semantics I do not say tentacles—of the public debt and the inhibitions it has induced extend profusely. The debt, as here defined, and the resulting inhibitions, is having and I think will continue to have, a marked effect on all four of the institutions.

Donald B. Woodward

The basic functions of the modern family, after the erosion of its role by urbanization and division of labor, are three: procreation, education and living. These functions motivate a variety of decisions regarding the determination and direction of effort, expenditure, accumulation and in-

(Continued on page 632)

*Part of a paper read by Mr. Woodward before the Annual Meeting of the American Economic Association, Atlantic City, N. J., Jan. 24, 1947.

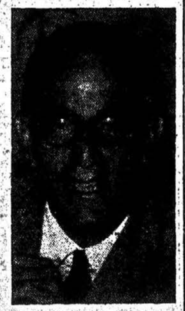
Observations . . . .

By A. WILFRED MAY

IS INTERNATIONAL TRADE ORGANIZATION WORKABLE?

The Conflicts With Our Domestic Policies

ATLANTIC CITY, N. J.—One conclusion following indirectly from the four-day joint sessions of the American Economic and American Statistical associations here, is the inescapable realization of the hard sledding with which our recently promulgated Trade Agreements will be confronted. The difficulties obstruct not only the adoption of the "liberal" trade program, but its workability after its possible adoption.



A. Wilfred May

Much of the pessimism arises from fundamental and detailed weaknesses in the ITO Charter itself. But the conclusion is forced on us that immediate trouble lies with us Americans because of the direct contradiction between our pious preachings internationally on the one hand, and our seemingly deep-rooted domestic policies on the other. In other words, there is a very great gap between our very finely worked-out drafting plans, and our acts at home. In the words of one observer, the International Trade Charter is like a potted plant which we keep displayed in the front window to be admired by our guests for its austere economic beauties. This dichotomous attitude of ours is particularly serious in the light of the preponderating influence of the United States, both morally and materially, in formulating both the principles and the rules, for the operations of the Trade Organization, as well as of the Monetary Fund and the World Bank.

In the first place, agitation is appearing and growing for raising—not lowering—tariffs; a process which really constitutes excise taxation to prevent our subsidized exports from returning. We have really never stopped the promiscuous use of quantitative trade restrictions, and glorified forms of dumping.

At almost every important step in the international negotiations the United States' statesmanlike position has unfortunately been inconsistent with its major economic policies at home. This is particularly exemplified in our existing production programs and price policies, notably those in the agricultural field. It is the mildest understatement to conclude that ITO does not represent the logical extension of our internal economic policies.

A shining example of our unilateral, not multilateral, dumping practice is contained in our potato policy. We are about to dump 20 million bushels of so-called surplus potatoes to rot, at a cost to the Government, in its price control program, of $28 million. The government's support of potato prices at a cost of $80 million last year, has been part of its domestic policy to keep the price up for the benefit of our domestic pressure group composed of the farmers.

Our own autarchic policies, which have become more and more adverse to free-flowing international trade, thus may be summarized as follows:

(1) Wage policies
(2) Excise taxes
(3) Higher tariffs to keep subsidized exports from returning
(4) Miscellaneous "qualitative" controls
(5) Finely practised art of dumping
(6) Supporting of prices.

Depression Will Increase Difficulties

It must be realized that our populace's temper in opposition to tariff reduction, which is prevalent enough even now, will become greatly intensified with the arrival of future depressions. Less full

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With Carl McGlone & Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—Arthur B. Becker has joined the staff of Carl McGlone & Co., Inc., 105 South La Salle Street. He was previously with Remer, Mitchell & Reitzel.

With J. D. Chambers Co.

(Special to THE FINANCIAL CHRONICLE)

CINCINNAIT, OHIO—Ormonde J. Merz has been added to the staff of J. D. Chambers & Co., Inc., Union Trust Building. Mr. Merz was formerly with Westheimer & Company.

Macurda in Research Dept. of Clark, Dodge

Donald B. Macurda is now associated with Clark, Dodge & Co., 61 Wall Street, New York City, members of the New York Stock Exchange, in the research department, it was announced.

Morrow & Co. Adds to Staff

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, OHIO—Rex E. Anderson and Mrs. Evelyn S. O'Connor have become associated with Morrow & Co., Hanna Building, members of the Cleveland Stock Exchange. Mr. Anderson was formerly with Curtiss, House & Co. and in the past was with Tillotson & Co. and Soucy, Swartswelter & Co. Mrs. O'Connor was previously with Wood, Gillis & Co. and Ball, Burge & Kraus.

Railroad Recession Ahead!

By CHARLES SHIPMAN

Railroad Editor of Standard & Poor's Corp.

Analyst holds that 1946 was exceptionally good year for the railroads, who are operating on a very high temporary plateau of traffic. Predicting a 30% drop in passenger traffic, he declares break-even point is too high relative to normal business. States sweeping changes in costs and rates are required for long-term profitable operations. Concludes sound railroad bonds and preferred stocks are attractive, but risk is excessive in speculative issues.

I shall concern myself not so much with the year 1947 as with a general period of adjustment, indefinite as to its timing, that seems to lie ahead for the railroads before their "reconversion" to normal peacetime operation can be considered complete. The adjustments called for are complex and difficult. The fact that they have yet to be made is bound to affect the market for railroad securities even now.

Charles Shipman

The railroads today are handling an exceptionally large proportion of an extraordinarily large total transportation movement. Their 1946 freight traffic exceeded 580 billion ton-miles, compared with 475 billion in 1941, and 447 billion in the boom year 1929. Their passenger traffic embraced some 48 billion passenger-miles, as against 29 billion in 1941, and 31 billion in 1929. In other words, they are operating on a very high plateau of traffic.

Their expenses are up extraordinarily too. The annual expense rate is \$2.8 billion higher than that of 1941, \$3.5 billion higher than that of 1939. More than \$2 billion of the increase since 1939 is attributed to increased wages and higher prices of materials. However, the Ex Parte 162 freight-rate increases, effective Jan. 1, 1947, are calculated to offset about \$1 billion of this. If the Ex Parte 162 rates had been in effect throughout 1946, the railroads would have been able to show excellent net results for the year in spite of their high plateau of costs. The combined net income of class I roads would have topped \$550,-

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Transportation Outlook—1947

By JAMES C. NELSON*

Chief, Transportation Division, Office of Domestic Commerce, U. S. Department of Commerce

Government expert forecasts rail freight traffic volume exceeding 1946 with rise also of local trucking traffic. Foresees some decline in passenger business and a marked rise in air cargo shipments. Looks for continuation of diversion of rail passengers to air lines.

Although strikes and reconversion difficulties during the first half of 1946 had a generally depressing effect on freight traffic, the high level of traffic established in the last half of 1946 required the full utilization of air, rail, and motor transportation. Domestic water transportation facilities were not utilized fully because of strikes and difficulties experienced in restoring coastwise and intercostal services. Pipe line traffic was at a much lower level in 1943 than in 1945 because of the closing of the Big and Little Big Inch lines shortly after VJ-Day. If labor-management problems are settled, the freight traffic outlook for 1947 should be a continuation of traffic levels higher than in prewar years.

James C. Nelson

*Reprint from January issue of "Domestic Commerce," issued by Department of Commerce.

With the exception of the air carriers and local transit services, common-carrier passenger traffic showed a general decline during 1946. The loss of military travel and greater use of private passenger automobiles were important factors in this decline and it appears likely that further production of new passenger automobiles will be reflected in further declines in rail and bus passenger traffic during 1947. However, competition for the remaining passenger traffic will be keen among the railroads, airlines, and bus lines. New equipment, designed with especial appeal for the comfort of the traveling public, and improved passenger services will be used by each of the carriers in an attempt not only to retain their present share of the passenger traffic but also to attract new business.

Rail Carriers

In the absence of work stop-

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Certain Depression Ahead!

By WILLIAM J. BAXTER*

Chief, International Economic Research Bureau

Mr. Baxter predicts the burden of taxation, necessitated by continuing huge military expenditures, will cause lower standard of living and the most serious "snowballing" depression in our history.

Fully realizing how unpopular pessimists are, I shall answer this question by saying that not only are we headed for certain depression, but that it will be the most serious one in our entire history.

William J. Baxter

To my mind it is nothing short of fantastic that you in this audience, or the American people generally, are questioning whether or not we face a depression. And we look to economists for the answer. But if you look at the training that 99 out of 100 economists get, you will realize perfectly why their very training makes them more misinformed than even the public whom they are trying to advise. I remember studying economics 27 years ago at the Harvard Business School, where, like all other universities, we were told that the difference between good times and bad times was answered by the amount of money or credit available for business. During the 19th Century, the quantitative theory of money was taught in England and imported to our universities. According to this school of thought, the price level in America during 1947 and the years immediately ahead will be determined practically entirely by the amount of money in circulation, the amount of bank deposits and the amount of public debt.

Economic Thinking Too Specialized

This specialized type of thinking, in my opinion, is just as dan-

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*Address by Mr. Baxter at the Associate Members Dinner Forum, at New School for Social Research, New York City, Wednesday, Jan. 29, 1947.

CIO Union Says It Doesn't Know How Much Longer It Can Hold Off Strike at Irving Trust Co.

By EDMOUR GERMAIN

Relations between bank and its maintenance and security employees affiliated with Financial Employees Guild, CIO, seem to have reached breaking point. Bank has hired private detectives to guard its vaults and other property in event of strike. The union wants dispute—over wages, union and job security and hours of work—to be submitted to an impartial arbitrator. Councilman Michael J. Quill demands City Council investigate use of "armed muscle-men" by Irving Trust to intimidate employees. Bank says it intends to feed and shelter those of its employees who, in event of a strike, want to remain at their posts.

On the surface at least, relations between the Irving Trust Co. and its maintenance and security employees affiliated with the Financial Employees Guild, CIO, would seem to have reached the breaking point. The bank has hired a host of private detectives, as it says, to be on hand to guard the vaults and other property of the bank in the event a strike is called by the union and the union itself, making all kinds of accusations against the bank, admits it has threatened to call a strike should, in its opinion, such a course of action ever become necessary. It would actually seem, at first glance, that a strike was imminent at Irving Trust.

However, bank officials say that though the union claims negotiations for a contract have broken down it is itself willing to continue the discussions whenever the union wants to do so. The union, on its part, claims that it does not want to strike, that, rather, it is the bank which, by hiring 250 detectives and so transforming "Wall Street into an armed camp," is trying to provoke a strike. It says it doesn't know how much longer it can hold off a strike but, in order to avoid such a conflict, it has offered to place the issues under dispute before an impartial arbitrator for decision. The Irving Trust Co., however, has refused to submit the matter before an impartial arbitrator, the union claims.

The union is charging that the Irving Trust Co. is spearheading a move by the bankers of Wall Street to smash the union's drive to organize the workers in the financial district. But the union has made similar charges against

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Air Transportation Outlook

By W. A. PATTERSON*

President, United Air Lines, Inc.

Condemning extreme attitudes regarding future of air transportation system, Mr. Patterson reviews civil aviation progress in the abnormal war period. Holds heavy transportation demands of war period created undue optimism regarding industry. Cites increased operating costs, with illogical expansion, as causing difficulties, but expresses confidence in ultimate future of air transportation. Looks for greater safety and improvement in air facilities and better equipment, and recommends airlines be conservative in future expansion and be patient in waiting for increased traffic volume.

The very people who just a few months ago were most optimistic concerning the future of the air transportation systems of our country are today the most pessimistic. Their pessimism toward the future is no more justified today than their optimism was last year. They didn't observe what the air transportation industry was going through three years ago and they have failed to observe the significance of what is happening today.

W. A. Patterson

I welcome the opportunity to express my views in the hope that we can avoid the extremes in optimistic and pessimistic evaluations of this industry, but view it realistically with a balanced appraisal of the current airline situation.

All of us will agree, I believe, that the industry was on a sound financial footing as we entered the war and that it was making steady progress, and it will for many years to come, in the development of increased business. The conditions under which we operated during the war, and which gave rise to false optimism, are an important factor in analyzing this entire subject and should be reviewed.

Wartime Operating Conditions

At the start of the war, the airlines in the United States operated 359 airplanes. The airport facilities for handling these aircraft, buildings and hangars which we had at that time were already being taxed to their very limits. Unlike other industries which expanded during the war, the airlines were forced to reduce their combined fleet of airplanes. Early in 1942, 183 airplanes were taken for Army use, leaving the airlines a fleet of 176 planes. Despite this reduced number of airplanes, however, the airlines surprised themselves by actually increasing the total tonnage carried. This was accomplished mainly by increasing the utility of aircraft from six hours a day to as high as thirteen and a half hours a day. This was accomplished by operating airplanes at times of the day to suit our operating convenience and not the desires of our patrons for convenient departure or arrival time.

The passenger occupancy of our planes increased from a high of 70% to an average of 98% plus for the later war years. It was not necessary to promote new business. It came naturally. Eighty per cent of all passengers carried during the later war years as well as cargo shipments were mainly booked and controlled by military priorities offices.

There were no seasonal fluctuations in traffic. Demand was constant 365 days out of the year. Many people flew not by choice but by necessity. Very few were paying their fares from personal income. Directly and indirectly, travel expense was being charged to the cost of war. Overhead expenses of the airlines were at a minimum—not always by choice,

(Continued on page 630)

*An address by Mr. Patterson before the Bond Club of Chicago, Chicago, Ill. Jan. 14, 1947

Public Utility Securities

Electric Bond and Share Rights

Electric Bond and Share Company has issued to stockholders of record Jan. 17 warrants entitling each share of common stock to buy 16/100 share of common stock of American Gas & Electric at 33¼ and 20/100 of a share of common stock of Pennsylvania Power & Light at 17½. The rights, which are traded on the New York Curb, are designated "A" and "P," to indicate which stock they apply to. On Monday night the "A" rights closed at ⅝ and the "P" rights at 7/16. American Gas & Electric which has had a 1946-7 Curb range of 48¾-37½, closed at the low point of 37½; similarly Penn Power & Light on the big board, after dropping to a low of 19¾, closed at 20, the range being 27½-19¾.

The offering period will last eighteen days commencing after the mailing of the warrants. Warrants can, of course, be separately exercised or sold. The purpose of the sale is to raise funds to aid in the retirement of the preferred stocks of Electric Bond and Share, as well as to conform with integration requirements. Prospectuses were issued on American Gas & Electric and Penn Power & Light and copies of these were mailed to all the common stockholders of Electric Bond and Share.

The accounting and financial policies of American G. & E. have been considered conservative as compared with those of other holding companies, and the system's engineering staff is also regarded as highly efficient. Phillip Sporn, Executive Vice-President, has been an active leader in the development of the "heat pump" which is thought to have great possibilities for the utilities as a whole in the househeating field.

The company's capitalization as of Nov. 30, 1946 consisted of $25,000,000 2% bank loan notes (to be retired serially), 115,623 shares of 4¾% preferred stock and 4,482,737 shares of common stock. It is probable that both the bank loan and the preferred stock will be retired later, leaving only common stock outstanding. The company has virtually completed its integration requirements under the Holding Company Act with the exception of sale of its stockholdings in Atlantic City Electric. This was scheduled to be sold last fall but sale was deferred because of market conditions. Earnings have been as follows on the common stock:

Year—	Consolidated	Parent Company
12 mos. end. Nov. 10, 1946 (pro forma)	$3.78	$2.66
Calendar year 1945	2.31	1.93
Calendar year 1944	2.32	1.81
Calendar year 1943	2.23	1,68
Calendar year 1942	2.21	1.65
Calendar year 1941	2.56	2.26
Calendar year 1940	2.99	2.09
Calendar year 1939	2.50	1.90
Calendar year 1938	2.23	1.60

While dividend payments last year were somewhat irregular, the total for the year (including an extra) was $2.15. At the current price the stock yields about 5.7%, and is selling at about ten times consolidated earnings.

Penn Power & Light is probably the largest operating company in the Electric Bond and Share system. It operates in a large portion of the State of Pennsylvania and sales are well diversified, although about a third of industrial revenues from sale of electricity are obtained from the coal mining industry. The company's earnings increased very substantially in 1946, due to refunding operations and tax savings. For the 12 months ended Nov. 30, 1946, pro forma earnings were $1.93 a share and earnings for the calendar year were probably in excess of $2 so that the stock is selling at about ten times earnings. The dividend rate has been raised from 80 cents to $1.20 so that the stock affords a yield of 6%.

Penn Power & Light obtained a favorable decision from the Pennsylvania Public Utility Commission in February, 1945. The Commission, at that time, found that the rate base (as of Dec. 31, 1942) was over $220,000,000 which amount is substantially in excess of the amount carried on the books. The Commission also found that 6% was a fair rate of return on the electric rate base. Thus the "ceiling" on earnings would be in excess of the 1946 earnings.

The company has under way an ambitious construction program which is estimated during 1947-51 to cost in the neighborhood of $115,000,000 (as contrasted with the present net book value of plant of about $180,000,000). Of this amount, $53,000,000 is the estimated cost of a 250,000 k.w. installation at the Sunbury Station. The remaining $62,000,000 is for general expenditures to meet load demands and improve efficiency. This substantial program will doubtless require additional financing, but nevertheless it is expected to work out favorably for common stockholders when completed.

Haulenbeek Pres. of Financial Advertisers

P. Raymond Haulenbeek Executive Vice-President of the North River Savings Bank, was elected President of the New York Financial Advertisers at the annual meeting it is announced. He succeeds William Huckel, Assistant Secretary of the Chase National Bank.

Other officers are: First Vice-President, Earl S. MacNeil, Vice-President of the Continental Bank & Trust Co.; Second Vice-President, Daniel F. O'Meara, Vice-President of Public National Bank & Trust Co.; Treasurer, Robert J. Stiehl of "Banking Magazine"; Secretary, Lee C. Hornney of the New York "Post."

Directors are Emmett Corrigan, Chairman of the board of Albert Frank-Guenther Law; John F. Donlon, Vice-President of Edwin Bird Wilson, Inc.; W. Francis Fitz-Gerald, Assistant Vice-President of Emigrant Industrial Savings Bank; William Huckel, Assistant Secretary of The Chase National Bank; Louis S. Lebenthal of Lebenthal & Co.; Isabelle B. Murray of Hudson Advertising Co.; Dudley L. Parsons of Dudley L. Parsons Co.; Charles P. Seaman, Assistant Cashier of Brooklyn Savings Bank; Robert W. Sparks, Vice-President of Bowery Savings Bank; and Edward B. Sturges, II of Edward B. Sturges, II, Inc.

Guests of honor at the meeting were the national officers of the Financial Advertisers Association, including President Swayne P. Goodenough, Vice-President of Lincoln Rochester Trust Co., Rochester, N. Y.; First Vice-President Robert Lindquist, Vice-President of LaSalle National Bank, Chicago, Ill.; Second Vice-President Allen Crawford, Vice-President of Bankers Trust Co., Detroit, Mich.; and Executive Vice-President Preston E. Reed.

With Kidder, Peabody

(Special to THE FINANCIAL CHRONICLE)

SPRINGFIELD, MASS.—Lambert A. Reavey is now connected with Kidder, Peabody & Co., Third National Bank Building.

Joins Swan, Stickley

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS.—Swan, Stickley & Company, 75 Federal Street, have added Clara R. Ellis to their staff.

With King Merritt & Co.

(Special to THE FINANCIAL CHRONICLE)

JEFFERSON CITY, MO.—John D. Murphy is now with King Merritt & Company, Inc.

Economic Outlook for 1947

By SOLOMON BARKIN*

Research Director, Textile Workers of America

Accusing "big business" of forcing decontrols to procure higher profits, labor economist maintains this has produced an unbalanced extension of our economy and has beclouded economic destiny of 1947. Holds prices have been pushed to exorbitant levels and higher productivity is not being shared by lowering prices. Asserts large business monopolies "have a stranglehold on our plants, our capital, our resources and our political power." Opposes decentralization of collective bargaining.

Forecasts are always difficult to make because our data are fragmentary. Statements of fact are frequently merely wishful thinking or deliberate propaganda issued to mislead.

Solomon Barkin

The record of 1946 production belies many scare headlines disseminated to prove that our economy was collapsing under pressure from labor. Millions of workers continued to produce peacefully, settled their industrial disputes with management through the routine procedures of the union contract, and negotiated their wage adjustments with their employers. Industrial disputes during the year were largely centered in those places where management was deliberately seeking to challenge labor and engaged in class warfare, or where management was utilizing the industrial dispute to coerce government into granting price increases.

We witnessed during the year 1946 a significant episode of American economic history. Big business fought governmental policy through its labor policy. It catalyzed the process of postwar relaxation and converted it into a demand for the deliberate destruction of all controls and planned reconstruction. In a frenzy to exploit the shortages for high profits, business demanded the removal of OPA and CPA controls. When they were removed, the bottlenecks were made severer and prices skyrocketed. Each business sought to capture the limited supplies which were coming from the production line. A balanced expansion of our economy which would prevent over-extension of production of some lines became impossible. Speculation in inventories became the order of the day. Shortages existed not because of legal restraint, but because of price speculation.

This heritage beclouds our economic destiny for the year 1947. It is a condition well known in

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*An address by Mr. Barkin at the Associate Members dinner forum of the New School of Social Research, New York City, Jan. 29, 1947.

Outlook in Building Industry

By JOSEPH L. WOOD*

Asst. Treasurer, Johns Manville Corporation

Building material executive, in asserting building materials future field looks bright, expresses belief there will be no major labor troubles in construction industry. Sees need for consumer confidence in lower construction costs and predicts construction of one million homes in 1947 with outlay of from $7 to $8 billions and an additional $6 billions in non-residential construction. Looks for increased flow of materials with new developments and better heating systems and more interior improvements.

The future in the building materials field looks bright. There is so great a backlog of housing and housing improvements that even at all out rates of production it doesn't appear that the demand can be supplied for several years to come. In addition to the new building delayed for so many years, there is the added factor of population increase. Before the war we were adding about 500,000 new families per year. 1947 will probably double that figure, which means not only additional demands for new housing but the necessity for modernizing, remodeling and enlarging existing homes.

Joseph L. Wood

Assuming no major labor troubles in the construction industry and especially assuming consumer confidence in lower construction costs, we can look forward to the construction of 1,000,000 homes representing a volume of $7,000,000,000 to $8,000,000,000 in 1947. We can safely anticipate $6,000,000,000 in non-residential construction. And to paint a picture of the importance of the repair and remodeling market, we can confidently expect a volume in this field of an additional $5,000,000,000.

We all know that one of the important bottlenecks in the construction industry has been the availability of materials and lest I be charged with looking at this picture through rose-colored glasses, let me tell you that every survey which has been made in the construction industry during the past 60 days indicates that the materials will be available to meet these figures.

Increased Flow of Materials

Beginning in the spring there will be a greatly increased flow of materials which should result in lower total construction costs despite the fact that manufacturers' material prices are higher than those obtained a year ago. This may sound strange to you but let me explain why I refer to lower total costs. In the first place, end costs have been higher in the past largely due to scarcity of materials. This was partly due to the existence of the black market

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*Part of an address of Mr. Wood before the National Consumer and Installment Credit Conference of the American Bankers Association, St. Louis, Mo., Jan. 25, 1947.

Obligations of Dealers and Brokers In Interpreting Prospectuses

By EDMOND M. HANRAHAN*

Member, Securities and Exchange Commission

Commissioner Hanrahan, in pointing out desirability of having dealers and brokers clearly explain to customers information in prospectuses covering securities offerings, urges them to adhere to two basic principles, viz: (1) let customer know that he is purchasing interest in future earnings of a business; and (2) tell him an investment in a security is putting money at a risk. Outlines procedure to be followed in explaining items in prospectus and says: "Put yourself in customer's position." Points out securities business is judged by its most disreputable representatives, and contends dealers have special obligations to customers.

Let me say at the outset that I deeply appreciate this opportunity of speaking before your association. It is particularly gratifying to talk to a group which is thoroughly familiar with the securities business and with the day-to-day problems which constantly arise in connection with the distribution of securities to members of the investing public. Each one of you, I am sure, has been well trained in this business, either through actual experience or by attendance at one of the various schools specializing in

E. M. Hanrahan

courses in finance. And nearly every one of you, I understand, has passed the exacting examinations required by the Exchange.

You are all aware of the SEC and its work. Consequently, I do not propose to discuss in detail the Acts administered by the Commission and the various rules and regulations adopted under them. I lay no claim to an intimate or extensive knowledge of such matters, since I have been a member of the Commission for but a brief period of seven months. However, in that space of time I have absorbed some useful knowledge about the Commission and its work. Concerning one particular phase of that work I have been especially impressed and have made it the basis of my discussion with you today.

More specifically, my subject relates to the desirability of hav-

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*An address by Commissioner Hanrahan before the Association of Customers Brokers, New York City, Jan. 29, 1947.

Food Commission's Proposals

By HERBERT M. BRATTER

Tentative report of World Food Preparatory Commission recommends permanent council to establish reserves against drought and disaster; and to further orderly production and stable prices. Holds sound internal finances requisite for grant of aid. Calls for annual reviews of national agricultural and nutritional programs.

Development of international commodity agreements and other intergovernmental arrangements for individual commodities constitute, from the businessman's viewpoint, the major recommendation of the report issued Jan. 24 by the Preparatory Commission on World Food Proposals. That Commission, which sat for three months in Washington, was created following a resolution of the FAO conference at Copenhagen last September. While the Copenhagen meeting approved the objectives of the proposals there laid before FAO by its Director-General, Sir John Orr, it did not accept his suggestion of a World Food Board. The report released last week in Washington and now formally laid before FAO's 47 member governments, outlines an alternative course. This report will be considered by FAO's executive committee at its March meeting in Rome, and will be weighed by the next full FAO conference, whenever that is held.

Herbert M. Bratter

In the space here available it is difficult to do more than give an idea of the economic and financial recommendations contained in the Preparatory Commission's 90-page document, which was adopted unanimously without a record vote. The report recommends as an addition to the structure of the FAO a permanent World Food Council to make possible international action to establish food reserves against drought and disaster and to foster orderly production and stable prices. As stated by the American delegate at the Commission's final session, Mr. L. A. Wheeler, the objectives sought cannot be achieved by uncoordinated action. The report is not the last word. After study by the governments it probably will be changed in detail. But, quoting Mr. Wheeler,

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Form Dreyfus, Jacquin N. Y. Exchange Firm

Announcement is made of the formation of Dreyfus, Jacquin & Co., members of the New York Stock Exchange, as successors to Lewisohn & Co., effective Feb. 1. General partners in the firm are Jack J. Dreyfus, Jr., Max Jacquin, Jr., William E. Nulty, Oscar H. Riggs, and John Behrens. Gladys Ohrbach is a special partner in the firm.

Max Jacquin, Jr.

Offices will be located at 37 Wall Street and 61 Broadway, New York City.

With Herrick Waddell

(Special to THE FINANCIAL CHRONICLE)

KANSAS CITY, MO.—William W. Crockett has become affilated with Herrick, Waddell & Co., Inc., 1012 Baltimore Avenue.

Fusz-Schmelzle Adds Two

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, MO.—Ralph H. Boschert and James J. Webb have become affiliated with Fusz - Schmelzle & Company, Boatmen's Bank Building.

SEC Says It Expects to Publish Report on Its Study of September Market Break Next Month

The Securities and Exchange Commission's much-awaited report on its study of the September break in prices on the New York Stock Exchange will probably be issued to the public sometime in February, according to James Treanor, chief of the Trading Division which has been conducting the investigation.

Mr. Treanor said that all the data which was sought and which he implied was very voluminous had been compiled but it was being checked and double-checked.

Reports had been current in Wall Street early in the week that it was just a matter of days—in fact, almost hours—when the report would be issued. Combined with another report that the New York Stock Exchange and the SEC were in the midst of conversations on the subject of the rules covering floor trading, news that the SEC was about to publicize its findings on the market break gave rise to speculation that the SEC might be considering tightening up on the rules on floor trading still further. Inquiry, however, revealed that the subject of discussion between the New York Stock Exchange and the SEC was the relaxing and not the tightening of the rules on floor trading.

The SEC report, it is thought, will probably just state that the September break marked the natural culmination of an expansive tendency in business that had to come to an end sometime, an expansive tendency that had to be checked eventually by the new equilibriums establishing themselves in industry in a postwar situation. The report may give some evidence of forced selling, as, for instance, by banks here and there, for the account of customers, it is thought, but it will not attach much importance to the influence on the trend in price movements exerted by sales.

SEC and Issuers' Representatives Confer For Second Time on Revision of Securities Acts

Representatives of issuers of securities met in Philadelphia on Jan. 28 with the Commissioners of the Securities and Exchange Commission to discuss revisions contemplated in the Securities Act of 1933 and the Securities Exchange Act of 1934.

This was the second meeting held with members of the financial community in the Commission's program aimed at revising the acts, and was described by James J. Saffrey, Chairman of the SEC, as a "preliminary conference to review what the program contemplates and to seek considered comments and suggestions to the end of improving the present statutes."

Present for the conference were William E. Haines, Frayser Jones, and Donald J. Hardenbrook of the National Association of Manufacturers; Arthur W. Crawford, representing the U. S. Chamber of Commerce; William B. Putney III of the Commerce and Industry Association of New York; John Sheffey, Executive Secretary, and Warren Moteley, counsel, for National Association of Investment Companies.

Mr. Caffrey reported the conference was marked by an "Atmosphere of cooperation and an attitude of keeping the integrity of the statutes with respect to protecting the American public investor."

A "gratifying response" has been received by the Commission in its appeal for written comments on the revision program, according to Mr. Caffrey. Meetings with other groups will follow and the commissioners themselves are to meet with underwriters, issuers, large and small institutional buyers, representatives of small business and other interested groups on the West Coast, Southwest and Midwest.

Dealer-Broker Investment Recommendations and Literature

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

Basic Analyses—Studies of 22 stocks attracting current investor interest: **Anaconda Copper, Celanese Corp., Coca Cola; Commercial Sol., Curtis Publishing; Electric Power & Light; General Foods; General Motors; International Nickel; Irving Trust; Libby, McNeill & Libby; Ohio Oil; Packard Motors; Phelps Dodge; Public Service of New Jersey; Pullman; Republic Steel; Schenley Distillers Corp.; Texas Gulf Sulphur; United Gas Improvement; Walworth Co.;** and **F. W. Woolworth**—write for basic analysis to Department T-9, Merrill Lynch, Pierce, Fenner & Beane, 70 Pine Street, New York 5, N. Y.

Building Shares—Memorandum on three companies furnishing basic products—Kneeland & Co., Board of Trade Building, Chicago 4, Ill.

Building Stocks—Comparison of Johns-Manville Corp., U. S. Gypsum Co. and National Gypsum Company—Lewisohn & Co., 61 Broadway, New York 6, N. Y.

Commodities—Brochure analyzing position of individual commodities and including comprehensive review of the world's commodities and markets—Bache & Co., 36 Wall Street, New York 5, N. Y.

Esky-Pads—Memorandum pad with the Varga girl on the cover—B. S. Lichtenstein & Co., 99 Wall Street, New York 5, N. Y.

"For Investors"—List of investment stocks selected for management, dividend record, financial strength, important industry, marketability, and profitable operations in depression—Frank C. Masterson & Co., 64 Wall Street, New York 5, 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.

Leading Banks And Trust Companies of New York—Comparative tabulation—New York Hanseatic Corporation, 120 Broadway, New York 5, N. Y.

Nathan Straus-Duparquet, Inc.—Memorandum for banks, brokers and dealers—Troster, Currie & Summers, 74 Trinity Place, New York 6, N. Y.

New York City Bank Stocks—Comparison and analysis of 19 New York City Bank Stocks with 1946 operating earnings and securities profits—Laird, Bissell & Meeds, 120 Broadway, New York 5, N. Y.

Preferred Stock Guide—Current figures on unlisted public utility preferred and common stocks—also contains a brief analysis of **Sioux City Gas & Electric Co.**—G. A. Saxton & Co., Inc., 70 Pine Street, New York 5, N. Y.

Railroad Developments—Current developments in rails—Vilas & Hickey, 49 Wall Street, New York 5, N. Y.

Revenue Bonds—Reprints of an address before the Municipal Finance Officers Association of Ohio by E. M. Bancroft of Stranahan, Harris & Co., Inc.—Ohio Building, Toledo 4, Ohio.

Review of the American Market For British Securities in 1946—Contains articles on the discount on British securities; United Kingdom Treasury bonds; tax status of income from British sources; British industrial stock average monthly for 1946, and a compilation of monthly dollar prices of 150 securities traded in both New York and London—Model, Roland & Stone, 76 Beaver Street, New York 5, N. Y.

Aetna Standard Engineering Co.—Late circular—Luckhurst & Company, Inc., 40 Exchange Place, New York 5, N. Y.

Also available are circulars on **Buda Company, Kearney & Trecker Corp.** and the **Fresnillo Company.**

Amalgamated Sugar Company—Financial analysis and 1947 outlook—Edward L. Burton & Co., 160 South Main Street, Salt Lake City 1, Utah.

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

Also available are circulars on **Wellman Engineering; Fashion Park, Inc.; Upson Co.;** and **Osgood Co.**

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; Purolator Products; Upson Corp.; Alabama Mills; Diebold, Inc.; Pfaudeer Corp.**

Bausch & Lomb—Memorandum—J. G. White & Co., Inc., 37 Wall Street, New York 5, N. Y.

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

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 Western—Study of situation and outlook for 5% participating preferred stock—H. Hentz & Co., 60 Beaver Street, New York 4, N. Y.

Cliffs Corporation—Study of situation in view of liquidation program—Gottron-Russell & Co., Union Commerce Building, Cleveland 14, Ohio.

Colorado Milling and Elev. Co.—Memorandum—Buckley Brothers, 1420 Walnut Street, Philadelphia 2, Pa.

Also available are memoranda on the **Gruen Watch Co.** and **International Detrola.**

Commodore Hotel, Inc.—Circular—Seligman, Lubetkin & Co., Inc., 41 Broad Street, New York 4, N. Y.

Also available is a circular on **Foundation Co.**

D. L. & W.—Lackawanna RR. of New Jersey—Analysis—B. W. Pizzini & Co., 25 Broad Street, New York 4, N. Y.

Fedders-Quigan Corporation—Analytical memorandum—Hautz, Engel & Andrews, 57 William Street, New York 5, N. Y.

General Phoenix Corp.—Study of situation—May & Gannon, Inc., 161 Devonshire Street, Boston 10, Mass.

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

Also available are circulars on **American Bank Note Co.** and **The Muter Co.**

Grinnell Corp.—Research item—Goodbody & Co., 115 Broadway, New York 6, N. Y.

Also available is a research item on **Rockwell Manufacturing Co.**

R. Hoe & Co.—Circular—Adams & Co., 231 South La Salle Street, Chicago 4, Ill.

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.**

B. L. Lemke & Co.—Study—Paul & Co., Inc., 1420 Walnut Street, Philadelphia 2, Pa.

Lime Cola Co.—Late data—Thornton, Mohr & Co., First National Bank Building, Montgomery 4, Ala.

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

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

Paraffine Companies, Inc.—Analysis—J. Barth & Co., 482 California Street, San Francisco, Calif.

Parker Appliance Co.—Circular—du Pont, Homsey Co., 31 Milk Street, Boston 9, Mass.

Pathe Industries, Inc.—Memorandum—Troster, Currie & Summers, 74 Trinity Place, New York 6, N. Y.

Fred B. Prophet Co.—Circular—DeYoung, Larson & Tornga, Grand Rapids National Bank Building, Grand Rapids 2, Mich.

Public National Bank & Trust Co.—Year-end analysis—C. E. Unterberg & Co., 61 Broadway, New York 6, N. Y.

Also available is an offering circular on **Stern & Stern Textiles, Inc.**

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

Red Rock Bottlers, Inc.—Circular—Hoit, Rose & Troster, 74 Trinity Place, New York 6, N. Y.

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

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

Seminole Oil & Gas Corporation—Late data—F. H. Koller & Co., Inc., 111 Broadway, New York 6, N. Y.

Sylvania Electric Products, Inc.—Study of current position and outlook—Hayden, Stone & Co., 25 Broad Street, New York 4, N. Y.

Title Guarantee & Trust Co.—Features of 1946 Annual Report and analysis of outlook—Amott, Baker & Co., Inc., 150 Broadway, New York 7, N. Y.

Utica & Mohawk Cotton Mills, Inc.—Circular—Mohawk Valley Investing Co., Inc., 238 Genesee Street, Utica 2, N. Y.

Secretary Clayton vs. Sen. Butler On Reciprocal Trade Agreements

Mr. Clayton denies charges that November election implied popular repudiation; that negotiations have been valueless to U. S.; and that the proposals would destroy protection. Asserts agreements will be flexible; and a prerequisite to an overall world trade program. In rejoinder Senator Butler criticizes lack of bi-partisan consultation; complains about brevity of hearings; and charges contradictory policies on wool, creating "Wonderland of Economic Nonsense."

Extending their controversy over the significance of the negotiations under the Reciprocal Trade Agreements Act, Senator Hugh Butler, Republican of Nebraska and member of the Banking and Currency Committee, and Under Secretary of State for Economic

William L. Clayton Hugh Butler

Affairs William L. Clayton engaged in another exchange of correspondence on the subject.

Following is a reply by Secretary Clayton written under date of Jan. 16, to Senator Butler's previous communications of Dec. 19:

Mr. Clayton's Letter

"Jan. 16, 1947.

"My dear Senator Butler:

"In your letter of Dec. 19, which was acknowledged by my secretary during my absence from the city, you urge that negotiations under the Reciprocal Trade Agreements Act be suspended. You advance four arguments in support of this request. First, you contend that the trade agreements program was repudiated by the voters in the November election and that its continuation would be 'a direct affront to the popular will.' Second, you refer to the 'pretended goal' of this 'ostensible program' and suggest that the concessions obtained in past negotiations have been valueless. Third, you complain that the list of products under consideration in connection with the pending negotiations is long. Fourth, you conclude that the Administration intends 'to destroy our system of tariff protection.'

"On none of these points do I find it possible to agree.

No Voter Repudiation

"First, there is no evidence to support your contention that the trade agreements program was repudiated by the voters in the November election. Certainly, it would have been impossible for any voter to suppose that this program was an issue in the campaign. The American people had been repeatedly assured that there was no partisanship in foreign policy; that politics stopped at the water's edge. The Trade Agreements Act, first passed in 1934, had been renewed four times, each time with a substantial number of Republican votes. On the last renewal, which involved an increase in the authority of the President to negotiate agreements, the Republican vote in the Senate had been practically a tie: 15 for and 16 against. The three last Republican candidates for the Presidency—Mr. Landon, Mr. Willkie and Mr. Dewey—had each explicitly endorsed the principle of tariff reductions through reciprocal agreements. You may recall

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The International Bank

By EMILIO G. COLLADO*

U. S. Executive Director, International Bank for Reconstruction and Development

U. S. representative on Bank's directorate gives details of institution's history and organization; purposes of its loan operations; loan conditions; financial structure; status of guarantees and other obligations and present loan applications. Analyzes United States' capital subscription and potential backing. Mr. Collado asserts great importance of broad market for Bank's obligations, emphasizing they are safe and attractive outlet for investment funds. Asserts institutions incurs no risks of currency depreciation. Declares Bank is designed to withstand most extreme economic stress and strains; and, at worst, its obligations would compare very favorably with concurrent record of other securities.

INTRODUCTION

The immediate and long-term interests of the United States require the speeding up of the world's economic recovery and economic development through a continuous and steady flow of foreign loans. Only by the reestablishment of high levels of production and trade the world over can the United States be assured in future years of a sustained level of exports and imports appropriate to the maintenance of high levels of domestic production and employment. By facilitating the sound economic development of other areas, the levels of world production and income can be increased. High levels of income at home and abroad are the surest foundations to the expansion of world trade which is necessary to us and to the rest of the world—the surest foundations upon which to build prosperity and peace.

Emilio G. Collado

The United States has utilized a number of vehicles for the emergency and transitional financing of relief, rehabilitation, and reconstruction. It is its present policy, fully ratified by the Congress, to place principal emphasis on the International Bank for Reconstruction and Development as the instrument for the promotion of private foreign investment and the supplemental financing at long-term of projects and programs of reconstruction and development.

The principal funds to be employed by the Bank in its operations will be derived from the sale on the investment markets of its own obligations or obligations guaranteed by it. In many jurisdictions various types of investors may now invest in the obligations of the Bank. The New York State Assembly last March legalized such obligations for investment by mutual savings banks. Legislation is now being introduced in a number of States to make International Bank obligations eligible for insurance company and other investment.

There are two general reasons why it is important that the market for the obligations of the International Bank be broadened as much as possible. First, the Bank must distribute its securities widely if the responsibilities in the foreign economic field entrusted to it by the United States and other member governments are to be adequately discharged. Second, the obligations of the Bank will provide a safe and attractive outlet for investment funds.

It is believed that the following analysis will demonstrate the high investment quality of the obligations of the International Bank.

History And Organization

The International Bank has been established pursuant to Articles of Agreement formulated in July 1944 at the Bretton Woods Conference which also prepared the Agreement for the International Monetary Fund. United States participation was authorized by the Bretton Woods Agreements Act which was adopted in the summer of 1945, at which time also, the lending authority of the Export-Import Bank was expanded by $2.8 billion to enable it temporarily to undertake many of the responsibilities of financing reconstruction and development which the International Bank was designed ultimately to assume. The Congress authorized the President to accept membership in the Bank, and undertake on behalf of the United States, the obligations embodied in the Articles of Agreement; it fully empowered the Secretary of the Treasury to pay in dollars to the Bank to meet calls on the capital of $3,175,000,000 subscribed by the United States; it provided for the appointment of a United States Governor and an Executive Director and their alternates by the President by and with the advice and consent of the Senate; it created a National Advisory Council — known as the NAC which consists of the Secretary of the Treasury as Chairman, the Secretaries of State and of Commerce, and the Chairmen of the Board of Governors of the Federal Reserve System and of the Board of Directors of the Export-Import Bank — to act for the United States in matters such as:

1. Assenting to the sale of debentures in this country where the

(Continued on page 613)

*Statement by Mr. Collado to the Insurance Committee of the Massachusetts Legislature, Jan. 21, 1947.

International vs. Domestic Money

By ROBERT TRIFFIN*

International Monetary Fund

Contending general abandonment of gold standard was due largely to lack of international monetary organization, Dr. Triffin holds setting up an international monetary system implies strengthening of domestic currencies. Says gold standard precluded any international monetary policy and was cause of spreading business depressions from one nation to others, as well as a resort to harmful nationalistic protective measures. Sees remedy in establishment of International Monetary Fund, whose policies, he contends, should be flexible to meet diversities of regional conditions.

The topic of this paper, and its brevity, invite commonplaces. The most trite of such commonplaces is the once original observation that the gold standard was in essence an international monetary system, and that its breakdown in the interwar period represented the triumph of monetary nationalism over monetary internationalism.

Since your Chairman begged for originality in these papers, I shall try to defend exactly the opposite thesis. Paradoxical as it may sound, I submit to you that the general abandonment of the gold standard in the 1930's was a reaction, not against international monetary organization, but against the lack of any such organization. I also suggest that an international monetary system cannot be approached by renunciation of national instruments of monetary policy, but implies, on the contrary, the strengthening of such instruments and their effective utilization and integration into an international policy framework. In other words, monetary internationalism must begin in the sphere of ends and policies, rather than of means and techniques.

The automatism of the gold standard excluded any control, whether national or international, over monetary phenomena. It precluded, therefore, the development of an international monetary policy, by denying the means of carrying out any such policy. This *laissez-faire* attitude was defended, here as in other areas of economic life, as the sure path to economic balance and equilibrium. It is curious to reflect on the survival of this philosophy in the field of international relations, long after its abandonment by most economists in the field of domestic economic policies.

Prestige of Gold Standard

The prestige of the gold standard as a mechanism ensuring international monetary balance can be traced back to the classical analysis of balance of payments readjustments. This analysis, however, was developed in terms of a special category of disequilibria, originating in cost maladjustments between a single country and the rest of the world. It was never

(Continued on page 631)

*An address by Dr. Triffin before the annual meeting of the American Economic Association, Atlantic City, N. J., Jan. 24, 1947.

Bond Club of Chicago Slate for New Officers

CHICAGO, ILL. — The thirty-sixth annual dinner and meeting of the members of The Bond Club of Chicago will be held in the Crystal Ballroom of the Blackstone Hotel on Thursday, Feb. 13, 1947.

Nathan D. McClure

A nominating committee consisting of Ralph Chapman, Farwell, Chapman & Co., P. A. Walters, Stone & Webster Securities Corp., and Paul L. Mullaney, Mullaney Ross & Co., will submit the following nominations for officers and directors for the coming year:

President: Nathan D. McClure, Harriman, Ripley & Co. Inc.

Secretary: George S. Channer, Jr., Channer Securities Co.

Treasurer: William D. Kerr, Bacon, Whipple & Co.

For directors to serve for one year, the above and—

Leo J. Doyle, Doyle, O'Connor & Co., Inc.; Richard A. Kebbon, Kebbon, McCormick & Co.; John S. Loomis, The Illinois Company; George L. Martin, Martin, Burns & Corbett, Inc.; Richard W. Simmons, Lee Higginson Corp.; Nelson M. Utley, Halsey, Stuart & Co. Inc.

Guest speaker will be Mark A. Brown, Executive Vice-President, Harris Trust and Savings Bank.

Dinner coats will be worn. Cocktails will be served at 6:15 p.m. and dinner at 7:00 p.m.

NSTA Notes

CLEVELAND SECURITY TRADERS ASSOCIATION

A half dozen brokers represented the Cleveland Securities Traders Association at the annual dinner of the Bond Traders Club at Chicago Tuesday, Jan. 28.

In the Cleveland contingent were Richard Gottron of Grotton, Russell & Co.; Howard Eble and Edward Parsons Jr. of Wm. J. Mericka & Co.; Corwin Liston of Prescott & Co.; Jay L. Quigley of Quigley & Co.; and M. A. Cayne of Cayne & Co.

The group also was present at the winter meeting of the National Securities Traders Association in Chicago yesterday (Wednesday).

Mr. Eble and Mr. Gottron are in Kansas City today for a meeting of the Bond Traders Club there and tomorrow (Jan. 31) are slated to be in Minneapolis and St. Paul for a meeting of the Twin Cities Bond Traders Association.

Several days ago Mr. Quigley announced appointment as national committeemen for 1947 to the NSTA of Liston, Cayne and himself. Alternates are: Clarence F. Davis of First Cleveland Corp., George F. Opdyke of Ledogar-Horner Co. and Arthur V. Grace of Arthur V. Grace & Co. The national committee met in the Palmer House, Chicago, yesterday with more than 3,000 committeemen from coast-to-coast in attendance. Some of the principal topics up for discussion included present and prospective legislation and working conditions within the industry.

SECURITY TRADERS ASSOCIATION OF NEW YORK

Michael J. Heaney, President of the Security Traders Association of New York, announces that the Association's annual dinner will be held on Friday, April 25 at the Waldorf-Astoria Hotel.

Ohio Brevities

Blair & Co. headed an account, including McDonald & Co. of Cleveland and First Cleveland Corp. that won $6,500,000 Seattle municipal light and power 2% bonds on a bid of 99.31. The issue, which was reoffered to yield from 1.90 to 2.09%, met a very fine reception, the underwriters said, adding that the bonds were substantially all sold soon after the offering.

* * *

A total of $1,500,000 first mortgage notes has been sold by Basic Refractories, Inc. of Cleveland to the Central National Bank of Cleveland and Mutual Life Insurance Co. of New York.

Of the proceeds, the company said, about $700,000 would be used for the construction of another plant at the Maple Grove (Ohio) operations. The remaining proceeds will be used to pay off the purchase price of a government plant and the rest added to working capital. Headquarters of the company are at Cleveland.

* * *

Over 50 years of service with two of the largest paint companies ended suddenly for Richard W. Levenhagen, Chairman of the executive committee of Glidden Co., Cleveland.

Two weeks ago today Mr. Levenhagen, who completed 25 years with Glidden last spring, was elected to the executive committee post and died unexpectedly the following day at his home. Before joining Glidden he had been with the Sherwin-Williams Co. a quarter of a century. During most of his time with Glidden he had directed the Durkee Famous Foods division, one of the most important of the company's operations.

* * *

Fahey, Clark & Co. of Cleveland and First National Bank of Chicago, were successful bidders for $695,000 Wooster, Ohio, 1¾% city school district bonds with a bid of 102.289. The bonds mature serially from Oct. 1, 1948 to April 1972. The issue was reoffered at prices to yield from 0.70% to 1.70%.

Next best bid was 102.13 by Braun, Bosworth & Co. of Toledo, with the third bid 101.92 by Stranahan, Harris & Co., also Toledo.

It is the school district's only indebtedness and it plans to use the proceeds to construct a new school building and for additions to others.

* * *

This little story could almost be titled "Financing the Railroads" by Halsey, Stuart & Co.

One day last week, Thursday to be exact, accounts headed by the Chicago firm were successful bidders on four equipment trust certificate issues. Otis & Co. of Cleveland was in all groups, excepting one issue by Chesapeake & Ohio Railway.

The biggest was $14,970,000 Pennsylvania Railroad ETC's which the Halsey group won on a bid of 99.209 for 1⅞% interest rate. These were reoffered to yield from 1 to 2.15%.

The C&O issue amounted to $2,300,000 and the bid was 99.129 for 1½% securities, representing a net interest cost of about 1.665%.

The third set of obligations was $1,700,000 Cincinnati, New Orleans & Texas Pacific 1½s. The yield price was 0.95% to 1.80%.

The final issue was $1,520,000 Alabama Great Southern which they acquired on a bid of 99.278 for 1½%. These were reoffered to yield from 0.90 to 1.75%.

Earlier this month a Halsey group won $3,310,000 of Baltimore & Ohio Railroad 2% equipments on a bid of 99.401. The reoffering on these was 1.15 to 2.25%.

* * *

Fifty-six years of banking service to Cleveland is the record established by Arthur H. Seibig who has retired as Vice-Chairman of the board of directors of Central National Bank of Cleveland, effective Feb. 1. He will continue as a director.

* * *

Financial Seen—Frank L. Elmendorf, Vice-President of Robert Heller & Associates, Inc. of Cleveland, has been elected a director of Continental Can Co., second largest in its field. Elmendorf has been closely connected with the can concern for 15 years. . . . Harvey O. Yoder, co-founder and Secretary-Treasurer of the 35-year-old Yoder Co., machinery manufacturers, has resigned as an officer and director to indulge in civic, cultural and other interests. . . . Francis M. Sherwin is the new President and Frank T. Humiston Jr., Treasurer and Assistant to the President of Brush Beryllium Co. . . .

Secretary William J. Perry represented the Cleveland Stock Exchange at a Securities & Exchange Commission conference at Philadelphia yesterday at which discussions for proposed revisions in the Securities Act of 1933 and the SEC Act of 1934 were held. . . .

The annual meeting and dinner of the Cleveland Exchange is set for Feb. 19 at the Union Club. George Placky of L. J. Schultz & Co. heads arrangements. . . . Harvey T. Gracely, who in 1901 took a job in a factory stock room with Marion Power Shovel Co., then Marion Steam Shovel Co., today is Pesident and General Manager of the company. He has been with Marion all of that time with the exception of about five years during the first World War. . . .

John P. McWilliams, Cleveland industrialist, has been added to the directorate of another company, Union Carbide & Carbon Corp. He is President and director of Youngstown Steel Door Co., and a director of Youngstown Sheet & Tube, Goodyear Tire & Rubber and National City Bank of Cleveland. . . .

Nestle-LeMur Co., founded in Cleveland and now located in New York City, has elected Lee E. Nadeau, Vice-President. He has been with the beauty parlor equipment maker for 20 years. . . . G. Gilbert Thorne has been appointed general manager of trade sales of Sherwin-Williams and E. W. Windsor is the new general manager of the S-W special chemical products sales.

Berwyn T. Moore Pays Visit to Cleveland

CLEVELAND, OHIO—Berwyn T. Moore President of Berwyn T. Moore & Co., Inc. of Louisville, Ky., paid his first visit to Cleveland last weekend since taking office as Chairman of District 10 of the National Association of Securities Dealers, Inc. The district covers Ohio and Kentucky and nine other security dealers and brokers serve on the committee.

Berwyn T. Moore

Mr. Moore, who succeeds John E. Joseph of Cincinnati, has been in the investment business since 1920. He is a past president of the Louisville Bond Club and an officer of the National Securities Traders Association. He also is chairman of the district business conduct committee.

Walter Ingram Joins Staff of Goodbody Co.

CLEVELAND, OHIO—The call of the securities business has urged the return of Walter H. Ingram, associated in brokerage circles for 35 years.

Ingram, who joined the Federal Reserve Bank of Cleveland in 1942, has come back as a customers man with the New York Stock Exchange firm of Goodbody & Co., located in the Cleveland office, in the National City Bank Building.

Securities and Exchange Commission Reported Considering Relaxing NYSE Floor Trading Rules

Both the New York Stock Exchange and the Securities and Exchange Commission admitted yesterday there was substance to the report current in Wall Street that they were in the midst of conversations on the subject of the rules which went into effect early last year restricting the activities of floor traders on the Exchange.

The Exchange indicated it was really premature to make any announcement about the matter but it did say that it hoped within a month or so to be able to report that an agreement had been reached with the SEC relaxing the restrictions on floor trading. The SEC made no comment except to verify the fact it was discussing the rules with representatives of the Exchange.

Traders have been severely restricted in their activities on the floor and the Exchange said it hoped to make it possible for them to buy and sell securities on their own account freely whenever they wanted to do so. There was some speculation on the "street" as to how far the SEC might now be willing to go in the direction of lifting the restrictions on the rules but there was general agreement on the desirability of giving the traders the right to sell on their own account whenever they thought such action was warranted by the condition of the market or to purchase securities back anytime after selling.

The present restrictions prohibit a trader from (1) selling for his own account, except at a loss, on an up-tick, until the second succeeding trading day; (2) buying securities back for his own account on a minus-tick until the second succeeding trading day.

Present restrictions also deny parity with a public bid or offer to any bid by a floor member to establish or increase his own position and refuse to give precedence to any bid or offer by a floor member over a public order merely on the basis of size.

The Stock Exchange believes that whatever concessions, if any, the SEC might consent to grant with regard to the rules would most likely be extended to the other exchanges in the country.

Central & South West Stock Publicly Offered

A group headed by Lehman Brothers and Lazard Freres & Co. offered publicly yesterday 1,342,192 shares of Central and South West Corp. common stock (par $5), at $12 a share.

Net proceeds from the sale of the 1,342,192 shares of Central and South West Corp., formed through merger of Central and South West Utilities Co. and its subsidiary, American Public Service Co., both Delaware Corporations and registered holding companies, will be used by the new company to retire those preference shares of the merging companies not deposited in exchange for new common stock pursuant to the merger agreement.

Central and South West Corp., following completion of the reorganization plan, will have authorized and outstanding a 2% secured note of Central and South West Utilities Co. in the amount of $348,000, and 6,600,000 shares of common stock (par $5).

Under a plan of merger, approved by the Securities and Exchange Commission and the District Court of the United States for the District of Delaware, holders of the preference shares of the merging companies were given the opportunity by an exchange offer terminating Jan. 17, 1947, to exchange their shares, at the respective redemption prices of such shares, for shares of new common stock at the initial offering price per share of the common to be sold at competitive bidding. Accrued and unpaid dividends on the preference shares and the value of fractional shares were to be paid in cash. Through this exchange offer, 64,749 shares of preference shares aggregating claims of $10,000,000 were submitted for exchange.

The merger agreement also provided that the authorized shares of the new corporation's common stock not exchanged or sold competitively will be issued in exchange for the outstanding shares of respective common stocks of Central and South West Utilities Co. and American Public Service Co.

The Middle West Corp., in exchange for its holdings of Central and South West Utilities common, will receive the authorized common shares of the new corporation remaining after the exchange of the new stock for common shares of the two merging companies held by other stockholders.

Middle West also owned more than 50% of the outstanding preference shares and all of the outstanding shares of $6 prior lien preferred stock of Central and South West Utilities Co. and exchanged all such shares for shares of new common.

The Directors of Central and South West Corp. currently intend, subject to continuation of consolidated earnings at approximately the present level and of factors justifying it, to initiate a policy of paying semi-annual dividends on the new common stock at the rate of 70 cents a share annually. The first dividend of 35 cents a share is to be paid about six months after the filing in the office of the Secretary of State of Delaware of the merger agreement.

Charles Lob Opens Own Investment Offices

(Special to THE FINANCIAL CHRONICLE)

NEW ORLEANS, LA.—Charles Lob has opened offices in the Canal Building to engage in the securities business. Mr. Lob was formerly a partner in Weil & Co. in charge of the syndicate department.

Charles Lob

A. M. Bishop Jr. Now With Staff of Larz E. Jones

(Special to THE FINANCIAL CHRONICLE)

NEW ORLEANS, LA.—A. M. Bishop, Jr. has become associated with Larz E. Jones, 318 Carondelet Street. In the past Mr. Bishop was head of Commodities Receipts Corporation, and did business as an individual dealer.

Two With Chas. A. Day

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS.—William B. Burford and Alfred E. Rand have become associated with Chas. A. Day & Co., Inc., Washington at Court Street, members of the Boston Stock Exchange.

Illinois Securities Dealers Mid-Winter Dinner

The Illinois Securities Dealers Association held their Mid-Winter Dinner at the Terrace Gardens in the Morrison Hotel, Chicago, on Jan. 15, 1947. More than 200 members and guests were present.

Guest speakers, Richard B. McEntire, Commissioner, Securities and Exchange Commission and Dr. Max Winkler, widely known economist speaker on financial subjects, were introduced by Owen Van Camp, President of the Association. Mr. McEntire's subject "The SEC and a Free Securities Market"; and Dr. Winkler discussed, "The Importance of Foreign Commerce in Our Domestic Economy." Both speeches appeared in the "Chronicle" of Jan. 16.

In his opening remarks Mr. Van Camp stated that several new firms had applied for membership in this growing organization.

Guests at speakers table were: M. G. H. Kuechle, Vice-President, National Securities & Research Corp., (Chairman, Dinner Committee Director); Wm. H Flentye, President, Wm. H. Flentye & Co., Aurora, Illinois, (Vice-President); James J. O'Connor, President, J. J. O'Connor & Co., (Director); Sigfred & Sandeen, Prop., S. A. Sandeen & Co., Rockford. Illinois (Director).

John S. Loomis, President, Illinois Co. (President Bond Club of Chicago); Harry A. Trees, Partner, Paul H. Davis & Co. (Director); Thomas B. Hart, Regional Administrator, Securities & Exchange Commission; Henry D. MacFarlane, Partner, Alfred O'Gara & Co. (Past President); Fred H. Mason, President, Mason, Moran & Co. (Director); Paul R. Noonan, Vice-President, Dixon, Bretscher & Noonan, Inc., Springfield, Illinois (Director); Walter R. Brailsford, President, Brailsford & Co. (Past President).

Hon. R. B. McEntire, Commissioner, Securities & Exchange Commission (Speaker); Dr. Max Winkler, Partner, Bernard, Winkler & Co., New York (Speaker); Owen V. Van Camp, Vice-President, Enyart, Van Camp & Co., Inc. (President); Hon. Poyntelle Downing, Security Administrator, State of Illinois, Springfield, Illinois; Hubert S. Conover, Vice-President Brailsford & Co.; James E. Day, President, Chicago Stock Exchange; Robert Strauss, Partner, Strauss Bros. (Director).

Hon. E. H. Cashin, Counsel, Corporate Finance Division, Securities & Exchange Commission; A. D. Plamondoh, Jr., President Indiana Steel Products Co.; Howard C. Morton, Partner, McMaster, Hutchinson & Co., President Bond Traders Club of Chicago; Paul E. Conrads, Proprietor, Conrads & Co., President Rockford Securities Dealers Association; Joseph Blosser, Partner, Straus & Blosser (Director); C. H. Redfield, Vice-President, Sills, Minton & Co., Inc. (Secretary); Edgar A. Peck, Vice-President, Treasurer, W. C. Gibson & Co. (Treasurer).

Nominating Committee Illinois Securities Dealers Association—The following were appointed as a nominating committee for the next election of officers: George S. McEwan, Chairman, Paul H. Davis & Co.; Leo J. Doyle, Doyle, O'Connor & Co.; Paul E. Conrads. Conrads & Co.; Joseph E. Dempsey, Dempsey & Co.; Henry D. MacFarlane, Alfred O'Gara & Co.

Halsey, Stuart Groups Offer Four Rail Issues

Halsey Stuart & Co., Inc., headed banking syndicates which won the awards Jan. 23 of four equipment trust certificates aggregating $20,490,000. Subject to the approval of the Interstate Commerce Commission the issues were reoffered immediately as follows:

Pennsylvania RR.—$14,970,000 1⅞% Equipment Trust Certificates series R re-offered at prices to yield 1.00% to 2.15%, according to maturity. The certificates, mature $998,000 each Feb. 1, 1948 to 1962, inclusive, and will be unconditionally guaranteed as to payment of principal and dividends by endorsement by the Pennsylvania RR. The certificates are not redeemable prior to maturity. The winning bid was 99.209, an interest cost of about 1.974%.

Associated in the underwriting are: Bear, Stearns & Co.; Blair & Co., Inc.; Equitable Securities Corp.; Hallgarten & Co.; Hornblower & Weeks; Otis & Co. (Inc.); Phelps, Fenn & Co.; R. W. Pressprich & Co.; L. F. Rothschild & Co.; Shields & Co.; Gregory & Son, Inc.; The Illinois Co.; Burr & Co., Inc.; First of Michigan Corp.; Graham, Parsons & Co.; Hayden, Miller & Co.; Putnam & Co.; William Blair & Co.; Julien Collins & Co.; Wm. E. Pollock & Co., Inc.; Singer, Deane & Scribner; Bacon, Whipple & Co.; Freeman & Co.; The Milwaukee Co.; Mullaney, Ross & Co.; The First Cleveland Corp.; Schwabacher & Co.; F. S. Yantis & Co., Inc.; C. C. Collings & Co., Inc.; Mason, Moran & Co.; E. W. & R. C. Miller & Co.; Alfred O'Gara & Co.; and Thomas & Co.

Alabama Great Southern RR.—$1,520,000 1½% Equipment Trust Certificates series J due $152,000 annually Feb. 15, 1948 to 1957, inclusive. The certificates were reoffered at prices to yield from 0.90% to 1.75%, according to maturity. The winning bid was 99.278, an interest cost of about 1.63127%.

Other members of the offering group are: Hornblower & Weeks; Otis & Co. (Inc.); R. W. Pressprich & Co.; L. F. Rothschild & Co.; Julien Collins & Co.; First of Michigan Corp.; Gregory & Son, Inc.; The Milwaukee Co.; Putnam & Co.; and Thomas & Co.

Chesapeake & Ohio Ry.—$2,300,000 1½% Serial Equipment Trust Certificates of 1947. The certificates maturing $230,000 on each Feb. 15, 1948 to 1957, inclusive were re-offered at prices to ing to maturity. The certificates are not redeemable prior to maturity. The winning bid was 99.129, an interest cost of about 1.665%.

Associated in the offering are: First of Michigan Corp.; Freeman & Co.; Wm. E. Pollock & Co., Inc.; Putnam & Co.; Julien Collins & Co.; The First Cleveland Corp.; Mason, Moran & Co.; The Milwaukee Co.; Mullaney, Ross & Co.; Alfred O'Gara & Co.; Thomas & Co.; and F. S. Yantis & Co., Inc.

Cincinnati, New Orleans & Texas Pacific Ry.—$1,700,000 1½% Equipment Trust Certificates, series K due $170,000 annually Feb. 15, 1948 to 1957, inclusive. The certificates were reoffered at prices to yield from 0.95% to 1.80%, according to maturity. The winning bid was 99.107 an interest cost of about 1.66236%.

Associated in the offering are: Hornblower & Weeks; Otis & Co. (Inc.); R. W. Pressprich & Co.; L. F. Rothschild & Co.; Julien Collins & Co.; First of Michigan Corp.; Gregory & Son, Inc.; The Milwaukee Co.; Putnam & Co.; and Thomas & Co.

Robert Walker Joins Eastman Dillon & Co.

CHICAGO, ILL.—Robert P. Walker, associated for the past 14 years with F. S. Moseley & Co., has joined the Chicago office of Eastman, Dillon & Co. as sales manager.

Following his graduation from the University of Michigan in 1930, Mr. Walker began his business career with Harris, Forbes & Co. at New York. When that company merged with Chase Securities Corp. in 1931, he moved to the sales department of its Chicago office. He joined F. S. Moseley & Co. in 1933.

Pulis Dowling Open New Haven Office

NEW HAVEN, CONN.—Pulis, Dowling & Co., New York investment firm, announces the opening of a New Haven office at 205 Church St., under the management of Chancey W. Hulse. Mr. Hulse was formerly with Cohu & Torrey and Craigmyle, Pinney & Co.

Banquet of Nat'l City Quarter Century Club

The Quarter Century Club of the National City Organization, composed of employees and officers who have served 25 years or more, held its eleventh annual banquet at the Hotel Astor on Jan. 23 with Gordon S. Rentschler, Chairman of the Board, as host. When the Club was formed in 1937, ten years ago, there were 199 at dinner; this year there were 861 guests. Including the overseas branches of the bank total membership is now 1,272, representing an aggregate of 37,811 service years.

Real Estate Securities

The market analyst for one of the largest dealers in real estate securities in New York says that ever since October the prices of real estate securities have held their ground more securely than the prices of securities in general. A graph which he has prepared, showing trends in the prices of representative securities, reveals, in fact, that during the last three months and more price averages for real estate securities have actually climbed a little. The rise, he declares, has not been spectacular, as such things are measured, but there has been a rise and it has been steady.

Commercial buildings have shown the greatest strength, rising in value higher than properties in other classifications, he points out. Apartment houses, however, he says, though they have not shown much change, at least have held their own, so to speak. After all, as he sees it and many others will probably agree with him, with politicians and political pressures being what they are, the OPA can't be considered exactly dead so far as apartments are concerned. At the moment anyhow, he thinks, it would not seem as though apartment-house owners can look forward to any extensive lifting of ceilings on the rents which they can charge for some time to come. Investors, however, he believes, are aware of the great—growing—demand for housing space and they are not forgetting that rents did go up, way up, even in the midst of the boom in new housing construction back in the 20's. The pressure on rents is decidedly upward, in his opinion, and will continue so for many more years.

New construction there probably will be, he says. Some new commercial buildings will undoubtedly go up and a large number of new small homes will certainly be built, but most of this construction will be in the future and not the immediate future, either, he thinks. Before new commercial buildings can be erected, old structures, in many cases, must first be demolished, and before they can be torn down, old leases must first be allowed to run out, he points out. It will probably be seven to nine years or so before the construction of new small homes can begin to catch up with demand, too, he feels.

The market in hotel securities has also improved considerably in tone, he points out. Last fall the large establishments were caught in a vicious squeeze between a sudden and severe rise in costs and a decline in business, though admittedly the decline wasn't too serious, being confined almost entirely to their bar and restaurant business, he says. Hotel managements were inclined then to take the pessimistic view of things, faced as they were with the higher food costs occasioned by the lifting of OPA ceilings on food products and with the actuality of having to pay retroactive increases in wages to their employees without any certainty the OPA would really lift ceilings on their transient room rents, he declares. Now, however, the ceilings are about to be lifted (Feb. 15) from the transient rooms and the hotels are trying to get the OPA to lift the ceilings on other classes of rooms, he says. The break-even point for hotels is now about 75% of occupancy, too, he thinks (the 82 to 85% figure of the hotels themselves is too high, he believes, based, as it must be on present volume of business and on the productive efficiency of a kind of help they need no longer employ) so, in his opinion, the prospect for hotels can be nothing but good.

Real estate securities, as a whole, derive some of the advantages which they seem to enjoy in today's securities market from the fact that the managements of the various properties have used the high earnings of recent years to pay off indebtedness, he thinks. Some establishments have liquidated as much as 25% of their indebtedness of 1940, he says. In some cases this has meant that they have paid off $1,000,000 or more of their obligations, he points out. A few properties with surpluses on hand have taken advantage of the market break to buy up their indebtedness at low rates, too, he says.

The stock market, taken in its entirety, is bound to show signs of increasing strength as soon as the first quarterly reports on earnings are issued, he believes. Production is being resumed on a rather broad front with nothing like the labor disturbances of a year ago at this time and, with effective demand for goods as great as it is, corporate earnings are bound to show improvement soon, he believes. It is not the general public which is active in the stock market today, he thinks. Professionals are doing the buying and selling and, with them, the hour-to-hour fluctuations in prices are of greater importance than the long-range trends in values, he says. Many investors, as for instance, those who purchased securities last year for the first time in their lives and got hurt, may feel now that the stock market is no place for them and others probably don't want to tie up their funds through fresh purchases until they can be reasonably sure the market is really starting to go up again, he feels. Public attitudes will change with unmistakable signs of progressive improvement in business conditions generally, he believes. The public will buy securities again in great quantities and that not long from now, he thinks.

The Real Estate Price Trend

Local real estate boards and real estate brokers report that residences are selling at the same or slightly lower prices than last summer, according to a nationwide sampling just completed by the research department of Merrill Lynch, Pierce, Fenner & Beane through 80 offices of the firm. This does not mean that a continuing downtrend may be in evidence, the firm points out, but it may indicate that a leveling off is occurring.

About 50% of the reports indicated that prices of business properties in general are about the same as last summer and about 40% reported increases from 10% to 40%—principally in the 10% range, the firm said. Retail stores appeared to be in greatest demand.

Over 70% of the returns reported farm lands around the same price as last summer, and the remainder indicated a decrease. Seasonal factors may be involved here to some extent, Merrill Lynch said.

"Sales volume is a barometer of demand, but it may also be indicative of a limited supply," the firm stated. "With respect to residential, farm and business properties, monthly volume of total dollar sales appears to have remained about the same as last summer, though some areas reported decreases of 10% to 80%. About 40% of the returns agreed that prices of residential properties are the same as last summer and that dollar sales volume is down. The same percentage indicated that both prices and dollar sales have decreased.

"Where prices were reported higher than last summer, there was noticeable resistance to the higher prices for residential properties, but opinion was about equally divided as between resistance and lack of resistance where business properties were concerned."

Frank E. Bliss & Co. to Be Formed in New York

Frank E. Bliss and William W. Goldsborough, Jr., both members of the New York Stock Exchange, will form Frank E. Bliss & Co., with offices at 11 Wall Street, New York City, shortly. Mr. Bliss who was formerly a partner in Bliss and Company, now dissolved, will be a general partner in the new firm. Mr. Goldsborough, who has been doing business as an individual floor broker, will be a limited partner.

South & Co. in Houston

HOUSTON, TEX.—Dudley P. South, Jr. has formed South & Co. with offices in the Scanlon Building.

A Federation of German States

By NICHOLAS MURRAY BUTLER*
Former President of Columbia University

Prominent educator and promoter of international accord advocates setting up a federation of German States on a plan similar to that of the United States and the British Commonwealth of Nations. Reveals information regarding the origin of Statute of Westminster, under which the British Empire was converted into a federation of independent governments, and points out most effective means of preventing revival of militarism in Germany is to unite German states economically and financially without creating a strong central government. Recommends capital of proposed federation be removed from Berlin.

There has been no time since the Pilgrims came into existence in London and then in New York, nearly a half century ago, when the object for which they came into existence was more important than at this moment. During this period, much has been accomplished and much more remains to be done. We have aided in bringing together the thought, the sentiment and the policies of the people of Great Britain and the people of the United States. Their governments have understood each other better than ever before and the cooperation between them has been significant and full of accomplishment. What remains to be done at the moment is to carry these principles forward and to apply them to the solution of what is perhaps the most pressing problem of the moment which faces Europe and the whole world. That problem is the effective reorganization of Germany. That great nation, stricken and overcome by war, is now in a state of exhausted existence.


Dr. N. M. Butler

Future of Germany

The time has come to consider how the German people can be organized and put back upon the field of contemporary history in order to resume the accomplishments which they were making fifty and sixty years ago, before the militaristic impulse took possession of them.

In my judgment, this reorganization must take the form of federalism. It must resemble the organization of the American Government and the American people if we are to accomplish what awaits us.

There are many things which remain to be done which the public has not yet fully or wisely understood. As a matter of fact, both the American people and now the British people have become examples through their government of the same form, and that form so far as Great Britain is concerned, is very new and little understood, if understood at all, by the people of the United States.

I have reference to the federal system of government, which, as American experiences show, is substantially the most effective possible for a nation which like our own, like Great Britain, or like Germany, covers a wide area, a large population and as many points of contact with the economic and intellectual life of the moment.

Birth of British Commonwealth

We have had the federal form of government from the adoption of our Constitution. But it is not generally known that England adopted the federal form of government in succession to the British Empire, by the great Statute of Westminster, enacted in 1931. At that time, the British Empire passed in history as a phase and the British Commonwealth of Nations came into existence as descriptive of the organization of what had been the British Empire.

The story of how that happened is not generally known, but I can put the essence of it into relatively few words. In the summer, the month of July, 1921, while making my usual annual visit to England, I received a confidential telephone message from the Prime Minister, Mr. Lloyd George, asking me to come to Downing Street at once, but not to tell anyone that I had been asked to come, or that I was going there.

I went at once to Downing Street, and Mr. Lloyd George, taking me aside and speaking in entire confidence, told me that he was to have at the week end, at Chequers, the country home of the Prime Minister, a group of prime ministers of the Dominions. They were going to discuss questions of political organization and international relations. They would like me to be present in order to answer questions which might arise relative to the experience of the United States. But I was to say nothing of this conference, nor to mention its existence, who were there, or what was said.

On Friday afternoon, I drove down to Chequers, substantially an hour and a half from London by automobile, and I found that the distinguished guests had already arrived. There were the Prime Minister of Canada, the Prime Minister of Australia, the Prime Minister of New Zealand, and two distinguished representatives of the people of India. The only absentee was the Prime Minister of the Union of South Africa.

The conversation on Friday evening was interesting, but rather general. On Saturday morning, however, the group were taken by the Prime Minister to a grove in the beautiful garden of Chequers, where he introduced a subject which he desired to have discussed. He told us all that the three Prime Ministers who were there had told him that unless some new arrangement was made, their countries were prepared to withdraw from the British Empire and to set up independent existence, through revolution, if necessary. Canada, Australia, and New Zealand were not willing to remain members of the British Empire. They desired to be in a position to maintain their devoted loyalty to the Crown and to accept the principles of democracy as worked out by Great Britain since Magna Carta, but they were not willing to accept the control of the British Parliament or the Foreign Office.

Three Commonwealths in U. S.

Therefore, the question was, "What could be done?" I listened with intent, because I saw that I was present at the crossroads in the history of Great Britain, and possibly in the history of the modern world. They were searching for a name to substitute for "empire." After listening for an hour or two, I called their atten-

*An address by Dr. Butler at the Annual Luncheon Meeting of the Pilgrims of the United States, New York City, Jan. 22, 1947.

tion to the fact that we in the American Colonies had had three commonwealths. We had the Commonwealth of Massachusetts, the Commonwealth of Pennsylvania and the Commonwealth of Virginia, among three of the original thirteen colonies. We also had the Commonwealth of Kentucky, which joined the Union two or three years after the adoption of the Constitution. And I suggested that they consider the word "commonwealth." This they began to do, and discussed it for an hour or two.

What did it mean? It meant common and united interest in matters economic, matters financial and matters practical, apart from the field of direct government.

But what else could be done to show the relationship between these colonies and Great Britain and how could it be phrased without bringing them under the control of Parliament again?

Unanimous Agreement

Finally, the word "nations" was suggested, the British Commonwealth of Nations, and after two or three hours of discussion, with many questions and much criticism at first, which was all answered to the satisfaction of the group, late in the afternoon they agreed unanimously to accept British Commonwealth of Nations as a substitute for the existing title.

Then the question came, what was to be done about it? Lloyd George admitted essentially that none of those present should mention what had been said or done, that no one should mention the conference or the fact that it had been held, that the matter should be left to him to see what could be done.

The consequence was, that after ten years, the British Parliament passed the famous Statute of Westminster, in 1931, recognizing the British Commonwealth of Nations, and the British Empire passed into history.

The British Commonwealth of Nations answered all of the needs of these colonies. The word "British" indicated their loyalty to the Crown and their acceptance of the fundamental principles of the British democracy. The word "Commonwealth" indicated their common interest in matters economic and practical; while the word "Nations" established their independence as separate governing bodies.

Autonomous Units

When that statute went into effect, Canada, Australia, New Zealand and the Union of South Africa became independent nations, directly related to the Crown, but wholly free from action of Parliament, and that has worked so well, that they are in better relations with the Mother Country today than they were before. The fact is, that in that relationship they have been able to accomplish a great deal. They have their independent parliaments and their indepedent foreign relations. No act of Parliament of Great Britain affects any one of them, unless their local parliament, so to speak, accepts the act and applies it to itself.

Therefore, they have become, as you see, a federal organization, of a very ingenious and very remarkable kind, not concrete and definite and specific, like the federal organization established by our own Constitution, but still, a most constructive form of federalism.

Now, that has suggested the fact that in facing the question before the world today, which is perhaps of outstanding importance, the organization of Germany, we should be guided by the experience of Great Britain and the United States, and should use the federal principle under which to restate and reorganize Germany.

It is exactly—I hesitate to say how many years—It was a Sunday evening in December, 1884, while still a student at the University of Berlin, that I asked a question of Prince Bismarck. At that time, my distinguished professor of philosophy had at his modest home in Berlin every Sunday evening a supper party of six or eight persons. These were usually the most distinguished minds in Germany. There were great scholars, or there were great statesmen—and Prince Bismarck was there frequently.

On this particular evening, some question was being discussed which led me, perhaps indiscreetly, to make this remark: I said to Prince Bismarck, "I often wondered, Your Excellency, why in building the German Reich you did not follow the American federal system, which has worked so well in the United States."

The group were staggered that any young American student should dare to ask a question of that kind of the greatest of living statesmen. There was complete

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Goshia Co. Admitting Meinert and Keier

TOLEDO, OHIO—Goshia & Co., Ohio Building, announce the admission of Paul A. Meinert and Russel E. Keier as general partners as of Feb. 1, 1947.


Paul A. Meinert

Mr. Meinert entered the securities business Dec. 15, 1922 with the firm of Collin, Norton & Co., and entered the employ of Goshia & Co. on Aug. 15, 1945. Mr. Keier first entered the securities business on Sept. 15, 1926 in the employ of Collin, Norton & Co. and joined his present firm on June 15, 1945.

Kobbe & Co. Inc. Is Formed in New York

Formation of the firm of Kobbe & Co., Inc. is announced today by Gustave Kobbe II, Douglas C. Alexander and Charles F. Rudloff. The firm will do a general investment securities business, as brokers and dealers, with banks and insurance companies. Offices will be maintained at 55 Liberty Street.

Mr. Kobbe, formerly a director and officer of Kobbe, Gearhart & Co., Inc., and more recently in the Armed Forces, is President and Treasurer of the new company.

Mr. Alexander, formerly with George B. Wallace & Co., specializing in industrial and utility securities, is Vice-President and Secretary.

Mr. Rudloof has been connected with houses in the street for 25 years and recently was associated with Lehman Bros.

Robert H. Gardner Joins Lamson Bros. & Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — Robert H. Gardner has become associated with Lamson Bros. & Co., 141 West Jackson Boulevard, members of the New York and Chicago Stock Exchanges.

Bank and Insurance Stocks

By E. A. VAN DEUSEN

This Week — Insurance Stocks

Continental Insurance Company and Fidelity-Phenix Fire Insurance Company are always about the first of the stock fire companies to send annual reports to their stockholders. This year is no exception, for their reports for the year ending Dec. 31, 1946 have already been received.

Both companies report a substantial expansion in premium volume and unearned premium reserves, and a moderate increase in total admitted assets. Surplus, however, shows a decline and so do liquidating values. The decline in surplus results from a combination of two factors, viz.: the drop in the stock market and the transfer of funds from surplus to unearned premium reserves to meet the large increase in premiums written. Liquidating values are affected directly by the full decline in surplus but by only 40% of the change in unearned premium reserves.

The reports also show a decline in underwriting profits on a statutory basis for each company but a sizable increase on a net basis after adjustment for the increase in premium reserve equity; net investment income is higher and Federal income taxes are lower. Total net operating profits, after Federal income taxes and other adjustments indicated above, are approximately 21% above 1945 for Continental and 29% for Fidelity-Phenix.

Comparative figures from the 1945 and 1946 annual reports of both companies are given in the accompanying tabulations. Figures are on a parent company basis, not consolidated. Consolidated net earnings in 1945 were $3.61 for Continental and $3.93 for Fidelity-Phenix. It is interesting that parent company net of both companies is not only higher than net on the same basis in 1945, but is also higher than consolidated net.

Fidelity Phenix Fire Insurance Co.

	12-31-45	12-31-46
Total assets (at market)	$134,769,676	$135,233,185
Capital	15,000,000	15,000,000
Surplus (at market)	84,171,500	78,693,847
Unearned premium reserves	21,564,068	26,086,846
Liquid value per share	$71.87	$69.42
Premiums written	25,448,911	30,149,010
Statutory underwriter's profit	$655,776	$477,400
Premium reserve equity	+750,651	+1,809,112
Net underwriters' profits	$1,406,427	$2,286,512
Per share	$0.94	$1.53
Net investment income	$4,130,720	$4,376,236
Per share	$2.75	$2.92
Federal income tax	$794,385	$557,251
Per share	$0.53	$0.37
Total net operating profits	$3.16	$4.08

Continental Insurance Company

	12-31-45	12-31-46
Total assets (at market)	$162,690,479	$163,382,552
Capital	20,000,000	20,000,000
Surplus (at market)	93,632,643	92,596,017
Unearned premium reserves	28,159,684	33,479,804
Liquid value per share	$64.95	$62.99
Premiums written	31,935,122	37,141,306
Statutory underwriters' profit	$1,612,000	$970,397
Premium reserve equity	+901,000	+2,128,048
Net underwriters' profits	$2,513,000	$3,098,445
Per share	$1.25	$1.55
Net investment income	$4,999,700	$4,204,700
Per share	$2.50	$2.60
Federal income taxes	$1,429,220	$962,948
Per share	$0.71	$0.48
Total net operating profits	$3.04	$3.67

In a year of excessive fire losses and generally higher payroll and operating costs the operating results achieved by these two companies are encouraging and significant.

Instalment Loans for Small Business

By CARL A. BIMSON*

Vice-President, Valley National Bank, Phoenix, Ariz.

Country banker points out instalment loans to small businessmen are advantageous to both bank and borrower and can replace declining amount of unsecured short-term commercial loans. Holds instalment loans have a fair degree of liquidity and could be made under conditions that would not justify extension of unsecured credit. Defends higher interest rate charge of instalment loans.

A generation ago the average bank dealt primarily in short-term, self-liquidating, commercial loans, with most such borrowings made to take care of peak inventory periods. A merchant of that day found it necessary to arrange the purchase of goods for the Christmas trade in the middle of the summer.


Carl A. Bimson

During the past years, however, the trend has been toward a concentration of funds in large money centers and of mergers of manufacturers and distributors into nationwide organizations controlled from one point. These organizations are large enough to be able to borrow in large amounts at a very low interest rate; or if they desire, can issue stock or sell bonds to the public for the funds needed in the operation of their business. As a result of this low-cost borrowing, these companies have assumed a position of virtual bankers for the merchants to whom they sell.

The result, is that bank deposits are now largely converted into loans based on securities, real estate mortgages, and investments in long term bonds. The short commercial loan occupies a small place in the total resources of the average bank.

At present, of course, there is an active demand for loans, and most banks have had a sizeable increase in their loan outstandings, but this demand will not necessarily continue and will probably slow up within the next year or two. And even now, with the present high loan demand, it is a far cry from the 90's when loans at times even exceeded deposits. As late as 1939, for example, total bank deposits were only 128% of loans; and too, there is a considerable difference in our present-day interest earnings, with the average interest earned by all commercial banks for the ten-year period ending 1936 being 5.58%, as compared with the average rate for member banks of 3% in 1945.

With this drying up of a large percentage of our short term commercial loan demand, many progressive banks have during the past

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*Portions of an address of Mr. Bimson before the National Consumer and Instalment Credit Conference sponsored by the American Bankers Association, St. Louis, Mo. Jan. 23, 1947.

Sellers and Nourse Are V.-Ps. of Illinois Co.

CHICAGO, ILL.—Paul A. Sellers and Clifton L. Nourse have been elected vice-presidents of

Paul A. Sellers

the Illinois Company, 231 South LaSalle Street, members of the Chicago Stock Exchange. Both were previously assistant vice-presidents of the organization.

Amer. Statistical Ass'n Elects Officers

Announcement of the election of Officers of the American Statistical Association on Jan. 25, is made as follows:

Incoming President, Willard L. Thorp, Washington, D. C. Assistant Secretary of State for Economic Affairs, Vice-Chairman of the Executive Committee on Economic Foreign Policy; Member of U. S. Delegation to the Paris Peace Conference, where he served as Special Adviser on Economic Matters, he also served in a similar capacity at the New York meeting of the Council of Foreign Ministers.

Outgoing President, Isador Lubin, New York City, U. S. Commissioner of Labor Statistics, 1933-46; Special Statistical Assistant to the President of the U. S., 1941-45; U. S. Representative, Allied Commission on Reparations in Moscow, 1945, rank of U. S. Minister, 1945; U. S. member, Economic & Employment Commission, Economic and Social Council, United Nations, 1946. Elected as Director of the A.S.A. for 1947—to serve for a 3-year term.

Incoming Vice-Presidents — Chester I. Bliss, Conn. Agricultural Experiment Station, Philip M. Hauser, Department of Commerce, Stacy May, Radio Corp. of America, Jacob Marschak, Cowles Commission for Economic Research, Jerzy Neyman, University of California, Frank W. Notestein, Princeton University, George W. Snedicor, Iowa State College, Aryness Joy Wickens, Bureau of Labor Statistics, Helen Walker, Walter Shewhart and Sam Stouffer.

Directors—(for 3-year terms), Isidor Lubin, Confidential Reports Inc. and Lowell J. Reed, The Johns Hopkins University; Director — (for the balance of Mr. Thorp's term) Samuel S. Wilks, Princeton University.

Secretary-Treasurer — Lester S. Kellogg, Bureau of Labor Statistics.

Following the election of officers the American Statistical Association announced the election of nine new Fellows of the Association, selected for their distinguished work in statistics. They include:

Calvert L. Dedrick of Washington, D. C., Stephen M. DuBrul of Detroit, Mich., Meyer A. Girshick of Washington, D. C., Irving Lorge of New York City, William G. Madow of Sao Paulo, Brazil, formerly of Washington, D. C., Howard B. Myers of Washington, D. C., Gladys Palmer of Philadelphia, Pa., Faith M. Williams of Washington, D. C. and Joseph Zubin of New York City.

"We Can and Must Have Industrial Peace!"

By JOHN C. KNOX*

Judge, United States District Court, New York

Judge Knox, noting laws have been already enacted to curb business monopolies and abuses points out labor has been left free "to wax strong and great." Says there is nothing sacrosanct about either labor or capital, and recommends compulsory arbitration of labor disputes in serious cases and establishment of special labor courts. Foresees opposition to proposals by both labor and management, but stresses labor's right to strike should be overridden by right of individual to work and to live. Outlines plan of a labor court.

In coming before you to express some of the views that I entertain with respect to the relationship which exists among management, labor and the public, I have a slight measure of diffidence. The subject matter on which you have asked me to speak is highly controversial. It is also enmeshed in partisan politics. Moreover, any discussion of the relationship to which I have referred may easily descend to the level of rancor, hot blood and violent passion.

Judge John C. Knox

Under such circumstances, some of you may entertain the belief that a judge should stand aloof from the forums of debate, and silently await the events of tomorrow. Upon my part, certainly, there is no wish to offend against any canon of judicial propriety, and, were the situation one of ordinary significance, I should hold my peace, and permit labor matters to take their course. The fact is, nevertheless, that I am a citizen, as well as a judge, of the United States, and an avoidance of industrial warfare—if it can be brought about—concerns me quite as much as it does you. Holding somewhat definite views upon a matter that now agitates every thoughtful citizen, I sometimes think that I am obligated to speak my mind, and for these reasons: I am not in politics, and never expect to be. Furthermore, I have neither hope nor thought that I shall ever hold any office other than the one I occupy. Beyond these considerations, may I add, I shall never again practice law. If, therefore, with malice toward none and charity for all, and out of a long experience with the problems of both management and labor, I can suggest a means whereby this land may possibly be relieved of some of the strife, discord, and economic loss to

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*An address by Judge Knox before the New York Bar Association, New York City, Jan. 24, 1947.

A Federal Labor Court —Is It Needed?

By DONALD R. RICHBERG*

Commenting on plan of Judge John C. Knox for a Federal Labor Court, Mr. Richberg contends such institution would not remedy industrial unrest. Holds Congress must remove special privileges unduly favoring one economic class and restore balance of economic power essential to a free economy. Objects to compulsory arbitration or judicial settlement of labor-management relations, except in cases where disputes cause public distress. Sees difficulties in applying economic principles by a law court, and suggests in arbitration cases, a judge preside, without vote, merely to supervise proceedings.

Judge Knox has made a valuable contribution in current efforts to find a way to industrial peace. It is not my desire or intention to attack his suggestions. On the contrary, after many years of study and work in the field of labor relations, I find it very hard to assure myself that any intelligently devised remedy for existing evils will or will not prove effective. I am only vigorously opposed to a do-nothing program; because we must seek and find relief in the law from the intolerable injuries which are now inflicted on the public by lawless methods of settling labor disputes.

Donald R. Richberg

Judge Knox has on various occasions forcefully presented the ills that afflict our society because of the growth of great powers without corresponding responsibility in labor organizations. These powers of collective action, through which unwarranted injuries have been done to public and private interests, exist partly because the government has neglected to impose legal obligations upon labor unions to respect the rights of others, and partly because the government has fostered the growth and authority of the unions by granting them special privileges and immunities.

Must Remove Special Privileges

Now the Federal Government has a two-fold duty: Special privileges and immunities that unduly favor one economic class—the industrial wage earner—must be either withdrawn or so modified as the preservation not only of a free economy but also of democratic government. Furthermore, responsibilities commensurate with their power for good or evil, should be imposed on labor unions, just as such respon-

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*An address by Mr. Richberg before Annual Meeting of New York State Bar Association, New York City, Jan. 24, 1947. Mr. Richberg is a member of the law firm of Davies, Richberg, Beebe, Busick and Richardson, Washington, D. C.

Railroad Securities

One of the most disappointing performances in the railroad industry during 1946 was that turned in by Southern Pacific. For years many rail analysts have looked upon the system as having emerged from the marginal status it occupied in the middle 1930s, and as having particularly bright post-war potentialities. The road has a dominant position in one of the fastest growing sections of the country, California. Thus, a highly satisfactory traffic trend was anticipated. The substantial sums spent on property improvements during the last 10 years, and the large amount of new equipment installed during the same period were expected to result in important operating economies.

Aside from the favorable traffic outlook and improvement in the physical conditions of the properties, a constructive attitude was considered warranted by the progress made by the management in easing the debt problem and reducing fixed charges. Exclusive of any open market purchases of bonds that may have been made last year the road has retired more than $230 millions of non-equipment debt since the beginning of 1941. The non-equipment debt outstanding with the public is now indicated at just slightly more than $460 millions. At the same time, the formidable maturity problem that once was considered a threat to the road's credit has largely been eliminated. Finally, the debt reduction and low coupon refunding resulted in a cut of almost 40% in annual fixed charges.

None of the basic improvements in the company's position were of avail last year. The road has experienced considerable difficulty in getting transportation costs under control, which may be due at least to a considerable degree to the precipitous drop in passenger business that got under way in the second quarter. In the latest month for which details are available (November) the transportation ratio was 46.9% and for the 11 months through November it was 43.4%. The latter was more than 11 points higher than a year earlier.

The breakdown of operations for the final month of the year is not yet available but the net results were particularly bad. Net operating income was reported at $3,915,505 but this was after a Federal income tax credit of close to $13,600,000. Before Federal income taxes there would be an indicated net operating deficit of nearly $10 millions. Not throughout the depression years, and probably not in its history, has Southern Pacific experienced such a poor month.

For the year as a whole system net operating income amounted to $41,524,526 which taken at its face value would not be a bad showing under the readjustment conditions of 1946. This showing, however, was made possible only through the medium of Federal income tax credits of $45,152,104. On its own, the system was not even able to cover bare operating costs for the full year. These substantial credits will not be available in 1947. If confidence in the status of, and prospects for, the road's securities is to be retained there will obviously have to be better control exerted over expenses fairly quickly. Perhaps this will come now that the higher freight rates are in effect.

Surprisingly the 1946 earnings deterioration has not had any particularly adverse affect on the junior system bonds. The debenture 4½s are still selling reasonably close to par and the Oregon Lines 4½s (considered by many analysts as being little, if any, better in quality than the debentures) are selling above par. These recent prices are only 6½ to 12½ points below the 1946 peaks. There are many higher quality railroad bonds where earnings have been far more satisfactory that have registered materially greater declines from the highs of last year. It may be that there will be a sharp turn for the better in the system's earnings results this year. In the meantime, however, many rail analysts are of the opinion that many better investment opportunities exist elsewhere on the list.

Marache, Sims & Speer Formed in Los Angeles

LOS ANGELES, CALIF.—Formation of the firm of Marache, Sims & Speer, members of the Los Angeles Stock Exchange, to conduct a general business in investment securities with offices in the Rowan Building, Los Angeles, is announced.

Paul D. Speer

Principals of the firm are Paul J. Marache, W. J. R. Sims and Paul D. Speer.

Mr. Marache has been in the brokerage business for the past 32 years in New York and Los Angeles. For the past 20 years he has been active in Southern California brokerage circles. Mr. Sims, formerly of Phoenix, Ariz., is active in aviation and automotive circles and was associated with Sims Investment Company. Mr. Speer, principal of Paul D. Speer & Co., predecessor of Marache, Sims & Speer, was a Commander, USNR on active duty from March, 1942, until October, 1945. Prior to that he was partner of H. C. Speer & Sons Co., Chicago, oldest municipal bond house of that city.

Henry Gundling Forms Own Inv. Company

CEDAR RAPIDS, IOWA—Henry Gundling has formed Gundling Investment Company with offices in the American Building, to engage in the securities business. Mr. Gundling was formerly a partner in Knapp and Company. Associated with the new firm will be Beulah Detwiler, cashier. Miss Detwiler was previously in the trading department of Knapp & Co.

SEC Sets Hearing

The Securities and Exchange Commission has ordered a hearing at the Chicago regional office on Feb. 10, to determine whether to revoke or suspend the broker-dealer registration of Behel, Johnsen & Co., Inc., Chicago dealer, for alleged violations of the securities act.

It was charged that during the period about May 18, 1942 to about May 7, 1945 the firm "induced certain of its customers to engage in transaction of purchase and sale (of securities) which were excessive in size and frequency in the light of the financial resources in such customers' accounts." The firm is also accused of taking "secret profits" at the expense of certain of its customers.

Now a Partnership

BALTIMORE, MD.—J. Dorsey Brown & Co., 210 E. Redwood Street, is now a partnership. Partners are James D. Brown, Jr., formerly proprietor, and S. J. Brown.

Opposes Compulsory Arbitration

Walter B. Weisenburger, NAM executive, joins with unions in condemning compulsory arbitration either through courts or other mechanism. Says compulsory arbitration does not remedy industrial unrest or settle disputes as satisfactorily as collective bargaining. Cites experience as proving compulsory arbitration does not prevent strikes.

Free collective bargaining and voluntary arbitration are the only democratic methods for attaining industrial peace, Walter B. Weisenburger, Executive Vice-President of the National Association of Manufacturers, declared on Jan. 19 in a statement opposing all forms of Government compulsion in setting labor disputes.

W. B. Weisenburger

President Truman and various Senators and Congressmen have proposed legislation to provide for various forms of compulsory arbitration which would tend to substitute a political solution in place of free collective bargaining.

"Compulsory arbitration" is a contradiction of terms, Mr. Weisenburger said. "It is unconstitutional, unfeasible and impractical for attaining the ends desired, and it would create a condition of involuntary servitude which eventually would lead to sabotage or violence."

The principle of compulsory arbitration lies in government's legislative authority to compel both employer and employee to submit their conflict to an outside agency for arbitration and award Mr. Weisenburger pointed out. The Government's agency then has authority to set terms and conditions of employment that have not been agreed upon voluntarily by both sides.

Attempting to dispel some illusions about special labor courts and "other devices as a cure-all for industrial strife," Mr. Weisenburger said that "schemes for compulsory arbitration may be disguised by varying terminology, but all of them are substitutes for voluntary collective bargaining, and, in greater or lesser degree impose settlement by judicial degree or by board fiat." The NAM has steadfastly opposed the principle of compulsory arbitration in labor disputes.

Compulsory arbitration has been known under such innocent sounding titles as mediation boards, labor tribunals, fact finding commissions arbitration boards, labor courts and industrial commissions, Mr. Weisenburger said. While compulsion is not always implied by these so-called labor courts, they are prone to "order" rather than "induce" the disputants to agree, he argued.

"Any such system, no matter what its name," the NAM official continued, "is actually a system for compulsory arbitration if it involves the determination by a third party of conditions governing the relations between management and labor."

That fact was recognized clearly this week by Secretary of Labor, Lewis B. Schwellenbach in his statement opposing the setting up of a permanent mediation board inside or outside his department, Mr. Weisenburger said, adding: "Mr. Schwellenbach is exactly right when he says that such a board would hamper efforts to achieve industrial peace."

Organized labor is "understandably opposed" to compulsory arbitration, he added, because many of the primary functions of labor unions would then be taken over by the courts, and it would be difficult, if not impossible, to unionize unorganized workers, since no union could get any better terms for the workers than an arbitration board would award.

"Furthermore," he said, "if the arbitration board's decisions were unsatisfactory to the union, there would be unrest and strikes against the Government with the possibility of large scale industrial warfare.

"Compulsory arbitration would also sound the death knell of the free enterprise system, as well as of collective bargaining, by putting the Government in control of wage rates, and thereby in a position to set prices. That would be the final step in a wholly-planned economy.

"With working conditions regulated by Government authority, political influence and power becomes increasingly important as a weapon for both management and labor. If politically appointed boards can decide where a man shall work, when he shall work, how much he shall be paid, then liberty in America is indeed dead. Worker and employer alike would be enslaved. To surrender to the courts the power to decree the terms, under which men shall work, would lead to government-controlled economy, rigidity in industrial operation, and industrial stagnation.

"When government forces people to accept industrial relationships that are contrary to their respective wishes, we have moved in the direction of regulation of personal and social relationships as well."

Among other reasons cited by Mr. Weisenburger as dangerous to be found in compulsory arbitration he said that "experience has shown that wherever a substitute for voluntary collective bargaining has been established, one or both parties will tend to by-pass negotiations at the bargaining table in order to get an issue before the board or court. Thus, the effectiveness of genuine collective bargaining is destroyed when a way is provided to short circuit the bargaining process. The basic incentive to bargain is lost."

Calling compulsory arbitration a "contradiction of terms," Mr. Weisenburger pointed out that arbitration has always signified the agreement of all parties to submit a dispute to an impartial third party of their own choosing. When this is made compulsory, it is no longer arbitration.

To preserve free collective bargaining, government intervention in labor disputes should be reduced to an "absolute minimum," he declared, adding that to attain and maintain industrial peace, so far as government is concerned a national labor policy is required which will have for its basic principles the "equal obligation of both labor and management to bargain in good faith and then to carry out the terms of the contract, and the elimination of irresponsibility and monopolistic abuses by labor or management."

Voluntary arbitration is the logical extension of the underlying principles of collective bargaining, Mr. Weisenburger concluded, in that the parties involved act in accordance with the purpose of collective agreement by laying down jointly the rules of arbitration for adjustment of their disputes and putting the agreed-upon plan into operation.

"On the other hand, compulsory arbitration in Australia and elsewhere abroad has NOT succeeded in eliminating strikes," he said.

Critical Appraisal of Nathan Report

By JULES BACKMAN*

Associate Professor of Economics, New York University

Economist attacks basic data, reasoning and conclusions of Robert Nathan's recent report made for CIO on possibility of raising wages without increasing prices. Says new round of wage increases will mean price rises in crucial segment of economy, and contends, because 1946 profits reflect tax rebates and some inventory profits, they should not be adopted as basis for estimating future earnings. Criticizes emphasis placed on global estimates and averages.

1. Peak level profits which are temporary in nature do not provide any basis for nation-wide wage adjustments. Any decline in volume from the peak would lead to widespread losses. Past economic history demonstrates that these declines can be sudden as well as substantial.

Jules Backman

2. Comparisons with the 1936-39 period show large percentage increases because of the low level of profits at that time—and prevalence of widespread losses. More than half the companies accounting for one-quarter of sales had losses from 1936 to 1939. The use of data for profitable firms in the prewar period gives a substantially different picture. For example, for 1936-39 profitable corporations made $7.5 billions after taxes but all corporations had profits of only $5.1 billions because of losses of $2.4 billions by unprofitable corporations. Profits take a smaller proportion of the sales dollar in 1946, even on the basis of Mr. Nathan's estimates (5.7%) than they did for profitable companies before the war (8.0%). Comparisons with prewar profits also fail to allow for the fact that the purchasing power of profits has declined as a result of higher prices.

3. There is no common pool of profits out of which all companies can pay higher wages. Profits vary widely among industries and companies. Low profit companies cannot obtain the funds required to meet wage increases from more profitable companies. For example, in the first nine months of 1946, profits were more than twice as high as in the corresponding period of 1945 for wholesale and retail trade and paper and pulp companies; they were 70% or more lower for automobile, electrical equipment and railroads.

Competition Reduces Too High Prices

4. If profits are too high, they can be more appropriately reduced by price competition than by further cost increases. In some fields there is already evidence, in the emphasis on buyer's markets, that price competition is becoming more important. Reducing profits by raising wages will make price reductions impossible, and in many cases will mean higher prices. Those with fixed incomes, government workers, etc., will continue to be priced out of the market. Wage increases would direct these profits to one segment of the economy: price reductions would diffuse the benefits widely.

5. Nathan has forecast ("Tide Magazine," Nov. 22, 1946) a decline in prices and production of 20 to 30% next summer. How can profits of 50% above the wartime peak be reconciled with such a decline in prices and business activity?

6. Nathan repeats the techniques used in the OWMR and Department of Commerce reports last year. Estimates in OWMR Report of October 1945 were wide of the mark. That report estimated Gross National Product at $160 billions. Now Nathan estimates the 1946 total at $190.7 billions (p. 17)—an error of almost 20%. The OWMR report forecast earnings before taxes at $17 billions. Now Nathan estimates they have been over $20 billions in 1946 (p. 59). Such wide margins of error do not provide a basis for confidence in the present estimates — particularly if Nathan's forecast of 20% declines in prices and in production next spring or summer materializes.

7. A new round of wage increases will mean price increases in crucial segments of the economy, particularly railroads, coal and steel. It would be impossible to prevent such price increases from affecting the entire price structure because those three industries affect costs in practically every industry. Past experience lends no encouragement to the idea that large wage increases can be made without an impact upon the price structure.

Danger of Global Estimates and Averages

8. Emphasis upon global estimates and averages has become a national pastime in the past few years. It is the marginal firm, not the average firm which determines the impact of higher costs upon prices. This is a basic criticism of the entire approach used in this report. Large wage increases "across the board" inevitably will create difficulties for many marginal firms. With many prices already too high, it will not always be possible to recover these cost increases by raising prices. Some unemployment would inevitably develop as some firms closed their doors and profitable firms discontinued the production of unprofitable products.

9. Throughout the report, comparisons are made with January, 1945 conditions. Why should we expect a continuation of that earlier situation when weekly wages were at their wartime peak? The virtual elimination of war production, the shift to peacetime products, the reduction in the number of hours worked, the shift of part of food costs from the taxpayer (subsidies) to the consumer (higher prices), and related factors distinguish the end of 1946 from January, 1945. Moreover, January, 1945 wages could not be fully spent because of higher taxes and shortages of goods. Comparisons with that month, therefore, are meaningless. While he seeks to reestablish wages at the highest level ever attained, profits are usually measured from the unsatisfactory and low prewar level.

Responsibility for Recent Price Rises

10. Although Nathan blames business for the breakdown of price control, the AFL places the responsibility on the steel workers. In its "Labor's Monthly Survey" for August, 1946 (p. 3), it stated:

"Practically the entire living cost rise has occurred since the steel workers forced the price ceiling break in February (1946) and as a direct result of that break."

This does not mean that all price increases resulted from higher wages. But such wage increases did help to break the dikes which had been holding back prices.

11. In some industries, 1946 profits reflect the effects of tax rebates. For example, George Romney has announced that during the first nine months of 1946, the automobile industry suffered an operating loss of $135 millions which was reduced to $5.5 millions after tax refunds. In 1947, tax refunds will no longer be significant. Similarly, rising prices have probably been reflected in some inventory profits. While the magnitude of inventory profits is not known, George Terborgh has estimated "they appear to have been accruing since June at an annual rate (for corporations only) of $4-5 billions, leaving something like $3 billions on an after taxes basis." Such inventory profits have always been temporary in the past and will be offset by future inventory losses. They furnish no sound basis for higher wages.

12. The Nathan Report ignores the fact that profits are used and represent an important source of purchasing power to a business. They are used to build new plants, and to buy new equipment which contributes to greater productivity and hence makes possible higher wages and lower prices. Profits as well as wages represent purchasing power.

13. With its emphasis upon 1936-39 profits as the basis for measuring "excessive profits," the Report ignores the fact that high profits and high wages go together. Moreover, it has been demonstrated that in years of high national income, profits usually have been $7\frac{1}{2}$ to 8% of the total. During 1946, the ratio was 7.3%.

*General observations of Dr. Backman on an analysis made by him for American Iron and Steel Institute. The Nathan Report appeared in "The Chronicle" of Dec. 19, 1946, p. 3209.

Wellington Fund Elects Officers

PHILADELPHIA, PA.—At the directors' meeting of Wellington Fund, held on Jan. 21, 1947, Joseph E. Welch, former Secretary, was elected Vice-President and Treasurer of the Company and Rawson Lloyd was elected Vice-President and Secretary.

In addition to his other administrative duties, Mr. Lloyd is in charge of the investment research department and Secretary of Wellington Corporation, the management company.

Mr. Welch is also Treasurer and director of Wellington Corp. He is principally engaged in the administration and operation of the Fund and is in charge of personnel.

NASD Announces New Members Admitted

WASHINGTON, D. C.—Wallace H. Fulton, Executive Director of the National Association of Securities Dealers, Inc., announces that Hartman, Smith & Mann, Inc.; McGinnis, Bampton & Sellger; and Toppell & Co., all of New York; The Crosby Corporation, of Boston; J. V. Everett, of Williamstown, W. Va.; and Weil & Co., Inc., of New Orleans, have been admitted to membership in the Association.

What Price Yoricks!

By EDWARD A. ROBERTS*

Formerly Director of Highway Passenger Operations, Office of Defense Transportation

Transit expert points out executive salaries have undergone heavy reductions because of taxes, while workers and "platform" men have received substantial increases. Concludes, unless situation is remedied, high grade executives will leave business and go into professions.

"Alas, poor Yorick!
I knew him well;
His salary was measly,
But he worked like hell."

Although Shakespeare started this epitaph, the second line was written for Joe Doakes, late President of the Riverdale Transit Co.

Edward A. Roberts

So this is an essay on the inadequacy of salaries paid to chief executives and key officials of transit systems — men entrusted with responsibility for millions of dollars worth of property but, more important, men whom every American city looks to for the solution of perhaps its most vexatious and intricate problem.

The New Deal has had three interesting but troublesome effects on the relative earnings of the platform man and his bosses:

First: Hourly wages have risen sharply.

Second: The trend of chief executives' salaries has been downward, due to sensitiveness to criticism, rabble-rousing and salary publicity given by the Treasury Department, SEC or state commissions.

Third: Federal income taxes have sharply reduced the take-home pay of the chief executives.

The net result is that the platform man who used to earn $30 now makes $50. On the other hand, a specific company whose chief executive used to draw $60,000 subject to rather nominal income taxes ($5,000 in 1925 or 8%, $13,000 in 1935 or 22%) now has a chief executive whose stated salary is $25,000 but whose balance after Federal income taxes of 36% is reduced to $16,000.

So while the organized workers have been gaining the sharpest pay increases in history, the boss has been taking home about one-quarter as much as in the days of a decade or two ago.

On the largest transit system on this continent, top salaries that exceeded $70,000 in the 1930's are now frozen at $20,000. Federal income tax on the latter approximates $6,000, state income tax another $500. "Take home" pay of these brass hats whose routes carry 2 billion passengers a year is thus $260 per week, $1,100 per month.

"Well, isn't that too bad, they'll starve on a grand a month." Thus reacts the hourly worker. But there is much more than that to the problem.

In the first place, the salaries cited here are for the top-most executives only. Below them, and on the way up, the average department head and executive assistant is usually in the $4,000-$8,000 bracket and has not had his pay raised in the same ratio as have his hourly subordinates. In fact, on some properties the freshness of his laundry rather than the size of his pay envelope is the principal distinction between the department head and his platform men or top mechanics.

In the second place, executives of transit companies and particularly chief executives must have a brand of ability far above the average these days. Their quality of education, training and ability could produce double or treble their present earnings if it had been directed into surgery, dentistry, law, merchandising or manufacturing.

And, if the present condition is not corrected, Joe Doakes, Jr., will become a dentist and let some third-rater kill himself working for the transit company and incidentally running the business to the dogs.

Transit boards of directors and the corresponding groups on the municipals have few occasions requiring them to originate ideas all by themselves. Revision of executive salaries is one of them.

*Reprinted from January issue of "Mass Transportation" published by Kenfield-Davis Publishing Co., Chicago, Ill.

The Seminole Oil & Gas Corp.

The Seminole Oil & Gas Corp., which came to market for new money in April 1946, through the issuance of 95,000 shares of common stock, reports its progress and growth during the past year to its stockholders. F. H. Koller & Co., Inc., offered the stock for public subscription at $3.00 per share, the proceeds of which were for the purchase of machinery, equipment, working capital and development expense.

The progress of the company from January to December 1946, in terms of completed wells; in terms of wells completed but not yet connected; and in terms of wells now drilling, and locations established for future drilling is outlined in charts submitted to stockholders.

Although there are 12 wells in the various leases in Oklahoma, only seven are actually productive (two producing natural gas and five producing oil). The other five are in various stages of completion. There are 13 wells on the Edwards lease in Texas, of which one is completed but not yet connected to the pipe lines and another is in final steps of completion. Thus the total production shown is actually only from 18 wells (two of which are gas wells) with the other seven yet to become effective in terms of production and dollar income. The total production for 1946 amounted to 72,997 barrels with a gross value, less royalty, of $111,312.

Recently the company successfully concluded an arrangement with a financial institution to extend a loan of $225,000, payable over a maximum of eight years out of oil from the Edwards lease exclusively, the security for the loan being solely the Edwards lease in Crane County, Texas. In addition, the bankers have agreed with the company, under certain terms and conditions to finance further drillings in Texas. Nevertheless, for the coming few months it is the company's intention to concentrate its drilling efforts in Oklahoma, and has recently established six new locations on its Oklahoma leaseholds, and has contracted for the necessary drilling. Oklahoma not being subject to the severe pro-ration which affects Texas, presents a more attractive field at the moment because of its direct effect on increasing income. However, the development work the company has done in Texas has produced substantial and valuable reserves which should contribute greatly to the basis value of the company.

In addition to this, and by reason of its connection with certain interests in the newly-opened Virginia-Kentucky field, the company has taken a lease for approximately 1,250 acres in the vicinity of producing acreage in this area. It does not intend to embark upon any development here at the moment, but feels that the importance of the field is such that it warrants having a position in it, especially so since the oil produced is a high-premium Pennsylvania crude at the present time bringing $4.04 per barrel. In Oklahoma the company receives $1.68 per barrel, and in Texas $1.45 per barrel.

H. W. Lussey With J. A. Ritchie & Co.

Harry W. Lussey has become associated with J. A. Ritchie & Co., Inc., 70 Pine Street, New York City, as manager of the government bond department. Mr. Lussey was previously with the Manufacturers Trust Company.

Eisenhower Favors Voluntary Enlistments

Says occupation forces have been reduced to a minimum, and are required to assure future peace. Maintains present army is not too large.

In an address as guest of honor of the Bond Club of New York at its annual dinner at the Waldorf-Astoria in New York City on Jan. 23, General Dwight D. Eisenhower, Army Chief of Staff, stated that the present occupation forces in Germany and Japan had been reduced to a minimum and it was essential to maintain forces in these areas for some time as a contribution to future peace.

General Dwight D. Eisenhower

General Eisenhower referred in his address to the difficulty of assuring absolute security by arms, "no amount of force ever has produced absolute security. That is why the concept of the United Nations must be successful if we are ever to enjoy absolute security."

To obtain our quota of security through arms, General Eisenhower said, the nation is faced with a short-term as well as a long-term problem. Part of the short-term problem, he said, is getting rid of the Selective Service system and the return to the old method of volunteer enlistments.

General Eisenhower said that men who were drafted made "an expensive type of soldier" in that they served for only a short time in relation to the amount spent on their training, and concluded that "the sooner we can desert Selective Service the better it will be for this country."

The General appealed to his audience to join the Army's recruiting service and "help us get some men."

The long-term problem ahead, Gen. Eisenhower held, involves keeping the Army modern through scientific research and development. So far as weapons are concerned, he explained that in any war in the near future "it would have to pick up just about where the last one left off."

"If you talk of push-button warfare," he said, "you are talking about something in the future, something that is X years away. The application of new weapons to actual warfare is a long distance in the future. We are not now in anything like a super-blitz."

"There is one thing on which everybody in Washington agrees—which is in itself unusual — and that is that our Army is not too large," Gen. Eisenhower asserted.

Speaking of the veterans' housing situation, the General stated: "Any country that poured out the stuff that this country did in the war can build enough houses to take care of the veterans that fought it. Personally, I think that the housing problem lies right with every single community from my home town of Abilene, Kan., to New York. Take it upon yourselves and see what you can do about it, and not wait to see what Washington is going to do about it."

A Windfall Tax on Retroactive Portal Pay

By HON. W. LEE O'DANIEL*

U. S. Senator from Texas

Democratic Senator scores portal-to-portal pay suits as a crime against commerce and urges imposition of a 100% "windfall tax" on all judgments given to workers. Offers amendment to Fair Labor Practice Act so there will be no grounds for future portal-to-portal pay suits.

I consider these portal-to-portal pay suits which the CIO is filing as a crime against commerce, and I congratulate the members of this Committee for your aggressiveness in trying to find a method to outlaw them.

Sen. W. Lee O'Daniel

In listening to testimony before your Committee I can see that there is a difference of opinion as to whether the Congress has the power to enact retroactive legislation that will outlaw such suits. I have, therefore, introduced some amendments which, if enacted into law, I believe will discourage the filing or prosecution of such cases. While both of my amendments deal with this subject, one of them was referred to another Committee because it proposes to amend the Internal Revenue Code. My amendment to S.70 which was referred to your Committee reads as follows:

"S. 70 Amendment, intended to be proposed by Mr. O'Daniel to the bill (S. 70) to exempt employers from liability for portal-to-portal wages in certain cases, and for other purposes, viz: At the proper place in the bill insert the following:

"Sec. ( ). (a) Section 7 of the Fair Labor Standards Act of 1938 is amended by adding at the end thereof the following new subsection:

"(e) As used in this section, the term 'workweek' shall include only the time during which an employee is engaged in productive work. In determining productive work (1) time consumed in going to and returning from work stations (except in cases where transportation is furnished by the employer and by custom in the industry or by agreement between the parties such travel time is compensable), and (2) time consumed in changing clothing and in preparing for productive work, shall not be included. (b) Hereafter, no action for the recovery of wages, penalities, or other damages (actual, liquidated, or exemplary) shall be commenced under the Fair Labor Standards Act of 1938 in any court by reason of any time spent by any employee in other than productive work."

That Amendment would make it clear that in the future only time

(Continued on page 629)

*Statement made by Senator O'Daniel before a sub-committee of the Senate Judiciary Committee, Jan. 25, 1947.

China's Economic Recovery Given Serious Set Back by Manchurian Industrial Loot by Russia

By EDMOUR GERMAIN

Authoritative source reveals Soviet Union has taken so much machinery from factories and mines of Manchuria that it will now take China possibly as much as 20 years longer to build up her industry than would have been necessary otherwise. Material either destroyed or removed from the Manchurian industrial area will require about $2,000,000,000 to replace, it is said. Photographic proof shows Russian armies took very best equipment out of land.

The Soviet Union has removed so much machinery and other equipment from the factories and mines in what was the Japanese puppet state of Manchukuo in Manchuria that it will now take China possibly as much as 20 years longer to build up her industry than would have been necessary otherwise, it has been learned from an authoritative source. (In time, the official report on the subject will probably be published in full.)

The Chinese, who had hoped to come into possession of the industrial empire intact that the Japanese had build up in Manchuria, had figured that it would take them only 10 years to bring their industry to a high level of development after the war, but now, it is estimated by those who have studied the situation, the job will take all of 30 years.

While the Japanese themselves probably destroyed much valuable equipment before withdrawing from their beloved Manchukuo, and though it is known that the Chinese Communists for some reason actually bombed many buildings and mines after the Russians had taken all the machinery and other equipment they wanted out of them, and that there was general looting by the Chinese whenever and wherever the Russians withdrew, still it is believed that the Russians are responsible for the fact that most of the best equipment is missing out of the territory. In all, the material either destroyed or removed from the Manchurian industrial area will require about $2,000,000,000 to replace, it is said.

Photographic evidence shows that the Russians did an excellent job at selection, it is pointed out. In fact, the proof is incontestable, it is said, that the Russian armies took the very best equipment out of the land.

The statistics reveal, for instance, that the equipment missing out of Manchuria includes 71% of the electrical power machinery in the area, 90% of the coal mining machinery, between 50 and 100% of the machinery in the iron and steel industry, 65% of the machinery in the chemical industry, practically all the rolling stock and all of the steel rails which the railroads had. To a country like China that lacks adequate transportation facilities, the loss of the rolling stock, the steel rails and the machinery of an iron and steel industry which could have quickly produced more rolling stock and rails, comes as a really serious blow, it is pointed out.

Of course, perhaps it should be pointed out here, that there is some irony in the fact that China should be bemoaning her fate when, if she had taken the initiative herself in developing the vast resources of Manchuria, the State of Manchukuo might never have come into existence. If China could have put an end to the fratricidal strife that has divided and weakened the country for so long early in the war, she might have been able to make greater contribution toward the winning of the war and so not only be considered more deserving in the eyes of the world of consideration in the Manchurian matter now, but also be in a position today actually to be able to resist effectively any such move as the Russians and, for that matter, some of its own nationals have been making.

Many will agree, however, that the propriety of Russian action in the case is without doubt seriously open to question. The implication of the findings that the investigating group has dug up in this matter, is that this "gutting" of Machurian industry by the Russians is something of an unconscionable act for which the Soviet Government will probably have to give some account—or should.

The Yalta Agreement is understood to give the Soviet Union the right to occupy Manchurian soil as long as she is in a state of war with Japan. Some observers feel, however, that it takes a vast amount of imagination to conclude from the facts that a state of war actually does exist today between the two countries.

In any event, however, it is common knowledge that sudden and mysterious removals of the rails along the tracks in Manchuria is nothing new in Chinese history. Every time bands of natives have wanted steel for military equipment in the numerous, almost annual local wars for which China has been famous for something over three decades now, they have never hesitated to take up the rails. It must be recognized that Asiatic politics have certainly been in a chaotic state for a long time. This has meant, of course, that the economy of the East has been in a chaotic state for some time, as anyone who surveys the situation will have to admit. The Chinese standard of living has been nothing to brag about, everyone will agree.

If Japan has lost Manchukuo and all that was in it because she lost the war, China is losing some of the most valuable property in Manchuria because quite obviously, in her divided and so weakened condition, she can't stand up alone against Russia. It is probably anyone's guess what the Western powers can do, if anything, for China.

Henri Pulver With McMaster Hutchinson

CHICAGO, ILL. — McMaster Hutchinson & Co., 105 South La Salle St., members of the Chicago Stock Exchange, announces that Henri P. Pulver has become associated with them. Mr. Pulver has been active in the over-the-counter business in Chicago for many years, formerly with Babcock, Rushton & Co. and its successor, Goodbody & Co. He was recently manager of the trading department of Robinson & Co.

Henri P. Pulver

Edward J. Duffy & Co. To Admit New Partner

Edward J. Duffy, Jr., member of the New York Stock and Curb Exchanges, will become a partner in Edward J. Duffy & Co., 111 Broadway, New York City, members of the Exchange, on Feb. 1. Mr. Duffy was previously a partner in Kean, Taylor & Co., from which he will withdraw on Jan. 31.

Gilbert Pearsall to Be Van Alstyne Partner

Gilbert B. Pearsall will become a partner in Van Alstyne, Noel & Co., 52 Wall Street, New York City, members of the New York Stock and Curb Exchanges, on Feb. 6th. Mr. Pearsall has been with the firm for some time as manager of the syndicate department and foreign representative.

Silcox and Townsend Form Investment Firm

CHARLESTON, S. C.—J. Heyward Silcox and John C. Townsend have formed Silcox and Townsend with offices at 36 Broad Street to engage in the securities business. Mr. Silcox was formerly with McAlister, Smith Pate and Frank S. Smith & Co., Inc. Mr. Townsend was with McAlister, Smith & Pate.

The Need for Statisticians

By JAMES D. PARIS
Research Associate, Metropolitan Life Insurance Co.

Atlantic City conference concludes that demand for competent statisticians will be increasingly demanded by industry and commerce, market research agencies, research laboratories, universities, and government.

ATLANTIC CITY, N. J., Jan. 26—At a meeting of leading statisticians, held under the auspices of the American Statistical Association and presided over by Dr. Helen M. Walker, Professor of Statistics at Teachers College, Columbia University, here this morning, the topic on "The Training of Statisticians," was thoroughly aired in an informal panel discussion.

J. D. Paris

It was the sense of the discussants, as well as of the audience, that there is great need for statisticians at all levels and that with the growth of industry and commerce, the awareness of the need for market surveys based upon sampling, quality control in industry, and general management control, the need will continue to grow for some time. Also needed are competent teachers of statistics in order to take care of the increased enrollment in colleges and universities. Not only are top mathematical statisticians needed but an even larger number of statisticians of an intermediate level is wanted. The facilities and instructors available for teaching the most advanced topics of statistics are still inadequate, largely because of the great strides made in statistical progress during the war, which include the techniques and operations that aided in the development of the atomic bomb, as well as many other advances of a less dramatic character.

In underscoring the need for statisticians it was pointed out that of the various professions listed in the National Roster the demand for a few of them was somewhat as follows: physicists, 5 per 1,000 registered; mathematicians, 20 per 1,000 registered; and statisticians, more than 30 per 1,000 registered. Calls had come not only from colleges and universities but also from government, industry, market research agencies, research laboratories and others.

It was the consensus of opinion that a standing committee be appointed by the American Statistical Association to stimulate further consideration of the matter of courses in statistics. Among the items which such a committee could cover are such things as the use of visual education and other teaching and learning devices so well developed during the war in the training of members of our armed forces and of the industrial workers behind them. It might also try to corral the many such devices which have been developed in universities and colleges, government agencies and business firms throughout the nation.

The statisticians also thought that articles which would propagate the idea of statistics and which would indicate the need of statistics in all fields should be prepared for the more general magazines in a way to bring to the attention of executives, administrators, and the more intelligent magazine reader the concept of statistics and statistical method and the benefits derived from their use. These articles should point out that statistics includes much more than merely figure manipulation, that it is in fact a method of logic and a scientific way of thinking, whose utilization can contribute to progress in many untapped fields. It was suggested also that a series of monographs is needed which would indicate the type of statistics needed, the potential jobs which may soon be cropping up, the training involved and how the statistician could equip himself for such positions. Such monographs might be encouraged by the Association in its professional function of advancing the field of statistics and applying the developments in these fields to progress in other fields.

The Panel included persons of many and diverse interests from government, universities, and business. Among those actively participating were: Professor Helen M. Walker of Columbia, Chairman; Chester I. Bliss of the Connecticut Agricultural Experiment Station; Francis J. Brown, American Council on Education and Executive Secretary of the President's Committee on Higher Education; Francis G. Cornell, U. S. Office of Education; Stephen DuBrul, General Motors; Harold Hotelling, North Carolina; W. J. McNamara, International Business Machines; Jerzy Neyman, California; James D. Paris, Metropolitan Life; C. V. Taylor, U. S. Civil Service Commission; and Samuel S. Wilks, Princeton.

What Peace Treaty with Germany?

By DR. EELCO N. VAN KLEFFENS*
Netherlands Delegate to UN Security Council;
Former Minister of Foreign Affairs

Netherlands' UN Delegate advocates special regime of international supervision for Ruhr and Rhine industries constituting Germany's war-potential. Dr. van Kleffens also proposes decentralization of her political structure, de-concentration of her economic power, and continued occupation of at least key points.

It is not a matter of peace treaties alone, I do not think a peace settlement could be called complete without a scheme for the collective reduction of armaments and armed forces, and that in itself is a vast and very difficult subject, which will engross our attention for quite a time to come. Let me therefore limit myself to one important aspect of that complicated whole which is to be the peace settlement, and that is the peace treaty to be accepted by Germany.

E. N. van Kleffens

You know that initial talks about that treaty-to-be are at present taking place in London. Quite naturally, the Netherlands Government has asked to make its views known on this subject which for Holland is of very great importance.

Consider the political side: Germany is our immediate neighbor. An old, impossible, sinuous frontier, based on completely outmoded considerations of a feudal nature and facilitating German aggression, separates us from that dangerous neighbor. We are vitally interested in the arrangements to be made for curbing Germany's inveterate and often demonstrated lust for conquest.

Consider also the economic aspect. Before the war, Germany was our second-best customer, and the country from which we on our part bought more than from any other. Since the war, Germany's economic prostration has seriously delayed our complete recovery. In our own interest we are vitally interested in the arrangements to be made for rebuilding the economic prosperity of Germany.

For these reasons, we have last week put on the conference table in London a memorandum which, in keeping with our liking for publicity in politics whenever possible, has at once been released for publication. That memorandum gives the views of the Netherlands Government concerning the peace settlement to be made with Germany. I should like to tell you something about it. I believe there is much in it which is in accordance with the American view.

The Twin Difficulties

The memorandum squarely faces the main difficulty. That difficulty lies in two seemingly conflicting requirements which interest you as much as they interest us, and which *must* be reconciled. The one is the economic recovery of Germany, a prerequisite for the economic recovery of Europe and for a healthy world economy. The other requirement is, that adequate safeguards must be devised in order that the restoration of Germany's war-potential which will necessarily result from her economic recovery, do not endanger world peace. On the solution of this problem the success of the peace treaty will depend. It is, in fact, the central difficulty.

In one terse sentence, the Netherlands memorandum expresses the opinion that a solution will be found "if, parallel to a reasonable degree of recovery of German economy, decentralization of the political structure and deconcentration of economic power are carried through consistently."

Decentralization of the political structure and de-concentration of economic power. These two main elements deserve a little closer consideration.

Centralization Not Needed

As Germany became more centralized, she saw more possibilities for aggression and conquest. In fact, Bismarck and Hitler, the two main artisans of German unity, carried out a unification program before embarking on aggression. But if Germany is, from now on, to abstain from aggression, why should she remain a strongly centralized state. Consisting as Germany does of an agglomeration of smaller units, each with a history and tradition distinct, to a greater or lesser degree, from those of the others, she might well become, for the common good of the world and of her own, a federation of these units. For that, all requirements are available: there is one language, one general outlook, one compact territory. The looser that federation, the better for all of us: a federation of states would be much better than a single federal state such as Germany was under the old Kaiser. Germany should not, of course, be entitled to change that federal structure at will, for it is to be imposed on her in the general interest. Conversely, we the Allies, and especially the major Allies, should, if necessary, nip in the bud any German attempt to modify that structure in contravention of the treaty and in conflict with the general interest. Prolonged occupation, which need not, however, in our opinion be more than an occupation of some key points or areas, will therefore be necessary. Right-thinking Germans may themselves welcome it, and its cost will be a small premium for safety compared to the suffering and cost of yet another war.

So far for the decentralization of the political structure of Germany.

With regard to de-concentration of German economic power, the Netherlands' memorandum contains a number of important and, we believe, useful suggestions.

The Ruhr has been, of old, the principal arsenal of Germany; the Rhineland (think of I. G. Farben) also contains very dangerous industries. The Netherlands memorandum recommends that, in view of the general interest all nations have that these regions do not once again become the starting-point of German aggression, both be governed by an international body on which we naturally would wish to be represented. The left bank of the Rhine, as is well known, has been a festering sore in the body of Europe for more than 1,100 years: ever since the notorious Treaty of Verdun of 843. No solution of what I might call the old-fashioned kind: a solution placing this area under one state, has ever given satisfaction. Why should we not attempt to find at last a solu-

*Address by Dr. van Kleffens at the dinner in his honor given by Netherland-America Foundation, and N. Y. Chamber of Commerce, New York City, Jan. 22, 1947.

tion on modern lines: an international solution for an internationally important and super-sensitive area, as in the case of Trieste?

Special Supervision of Ruhr-Rhine Industries

A special regime of international supervision for Ruhr and Rhine industries capable of increasing Germany's war-potential would, of course, seem to be indispensable if we are not to be fooled again.

In addition—and this too seems *very* important — suitable safeguards should be devised in order to prevent the concentration of too much economic power in too few German hands.

These are, from a general point of view, the main points we advocate. They seem to us all important, and we ask our friends and allies to ponder them carefully. We know the Germans all too well. Based on that, unfortunately too intimate knowledge, we sincerely believe these ideas offer a real and, what is more, a practicable solution.

Economic Measures Suggested

The Netherlands memorandum contains quite a number of other points. There are observations referring to the German customs, and monetary system, and to a sensible policy to be followed when loans to Germany will once more have to be considered. There are observations concerning the need to prevent German dumping and economic discrimination against other countries. There are thoughts on reducing the cost of occupation, on denazification and on the contribution Holland could make towards Germany's spiritual and cultural reconditioning. Most especially, the need is stressed for Holland to obtain some more economic compensation from Germany than the paltry average of not quite 5% allotted, in theory at least, to the Netherlands as their share in German reparations the outcome of which will show a glaring disproportion to the damage and looting done by Germany, and will leave us quite unnecessarily poor, *unnecessarily* even when full consideration is given to German needs. We also wish to rectify our frontier, as I have already said, partly for economic and partly for strategic reasons; what we would like, in our own and in the general interest, is a modern, straight, streamlined frontier, such as the frontier between you and Canada. In any case the worst, aggression-inviting bulges should be cut out.

But, however important, these are only the details. The main thing to remember is that we advocate:

The economic recovery of Germany and adequate safeguards against renewed German aggression.

Chiefly through:

Decentralization of Germany's political structure, deconcentration of Germany's economic Power, and continued occupation, be it only of key-points or areas.

We are not a highly emotional people. It sometimes seems surprising considering in what beastly manner the Germans have treated my compatriots for five long years, how detachedly Hollanders can talk about just and generally desirable solutions. Of that state of mind, the Netherlands memorandum bears the imprint. We hope that the major Allies will heed it in the same spirit of constructive statesmanship.

We do not wish to be vengeful. But we also do not wish to be soft. A major surgical operation is necessary. Let us then perform it coolly, judiciously and fearlessly, not merely for the good of the patient, but also, and in particular, for the good of us all: the community of nations as a whole.

Britain's One-Sided Export Drive

(Continued from first page)

the surplus of its trade balance with "soft currency" countries and with countries holding blocked sterling balances. The volume of goods available for export is not unlimited, and the ease with which they can be sold on the continent, in the Empire and in the Middle East undoubtedly slackens the exporters' efforts to sell them in the Western Hemisphere.

The exchanges of most "soft currency" countries are grossly overvalued in relation to sterling. It is therefore very easy to export to such countries at a substantial profit. As for countries with blocked sterling balances, they go out of their way to buy British goods within the limits of possibility, in order to reduce their balances before the conclusion of the funding agreement.

The "hard currency" countries are neglected in consequence by many exporters. The deficit in relation to those countries has to be covered out of the proceeds of the U. S. and Canadian loans. Were it not for the "success" of the export drive to countries which do not pay for the British export surplus, the rate at which the proceeds of these loans are used up would be much slower.

All this is now realized in Britain, and the necessity for diverting the export drive towards "hard currency" countries is freely admitted. Even such a firm supporter of *laissez-faire* as Professor Lionel Robbins admits reluctantly the necessity for "doing something" about diverting exports from countries which do not pay for them. But neither he nor others dealing with the subject, whether in an official position or not, have put forward in public any constructive suggestions as to what measures, if any, they have in mind. The government has so far confined itself to expressing the desire that exporters should endeavor to concentrate their efforts to "hard currency" countries. It is doubtful, however, whether such appeals for voluntary action on the part of exporters has produced, or will produce, any effect.

During the war the British public was asked to make voluntary efforts of many kinds in the interests of victory in spheres where the government was reluctant to apply compulsion. In most instances the response was satisfactory. But then, there was a war on, and survival depended on the cumulative effects of the individual efforts of 43,000,000 souls to do their bit. Most people considered it their patriotic duty to assist the government in their small way in this task of winning the war. That spirit no longer exists, at any rate not to anything like the same extent. In particular merchants and manufacturers have no reason to be enthusiastic about assisting the Socialist Government, even if in doing it "they would be assisting also the country." If a private firm can make 25% profit by selling to France and only 5% by selling to the United States, it is not inclined to direct its limited supplies to the latter country merely because the proceeds of exports to France are likely to become frozen while those of exports to the U. S. yield much-needed dollars. The exporters themselves are not effected by the impossibility of obtaining payment from France for years. For they can insure the "transfer risk" with the Export Credits Guarantee Department, a government office, which in return for a moderate premium, undertakes to pay the amounts due if owing to transfer difficulties the exporter should be unable to receive payment within the time limit fixed in the insurance policy. So it is the government and not the exporters that has to carry the burden of the delay in receiving payment. As for countries holding sterling balances, they simply pay British exporters out of these balances.

What are the measures that the government may conceivably apply in order to divert exports towards "hard currency" countries? The following are a few tentative suggestions: (1) The system of licensing exports might be restored, and licenses would be granted more freely to "hard currency" countries; (2) Allocation to manufacturers of fuel and raw material—in so far as it is in the government's hands — would be made conditional upon the export of a certain percentage of the output to "hard currency" countries; (3) Under the Supplies and Services Act the government could issue orders directing particular companies to export to the desired destinations; (4) The Export Credits Guarantee Department could discontinue or curtail the issuing of insurance policies to cover the transfer risk on exports to "soft currency" countries; (5) The blocked sterling balances (which at present are only blocked in the sense that they cannot be converted into currencies outside the Sterling Area) could be blocked in the real sense of the term, so that henceforth only sterling derived from current exports to Britain would be available for the purchase of British goods, pending the funding of the old balances.

This latter suggestion is of particular importance, as it would materially strengthen Britain's none too strong bargaining position in the coming negotiations for the funding of sterling balances. So long as holders can spend their balances freely on Britain's goods there is little inducement for them to make important concessions for the sake of coming to an early agreement. Moreover, by ceding indirectly to countries holding sterling balances the proceeds of the dollar loan, the British Government has materially reduced the amount of dollars it can afford to cede directly in return for a scaling down of the debt and for other major concessions. The sooner a "red line" is drawn in the books of the banks, to separate existing balances from the proceeds of current trade, the better.

L. B. Eberhardt Opens

WILMINGTON, DEL.—L. Beach Eberhardt is engaging in the securities business as an individual dealer from offices at 612 West Eleventh Street. Mr. Eberhardt was previously president of Eberhardt & Co., Inc.

Canadian Securities

By WILLIAM J. McKAY

It is no exaggeration to state that the Dominion of Canada of today would not exist without the Canadian Pacific Railway Co. Indeed the original purpose of its formation was to link the West coast with the East and thereby permit the effective entry of the Province of British Columbia into the Canadian Confederation.

Since that time its ramifications have extended not only into every corner of the Dominion but throughout the entire world. With over 17,000 miles of line the Canadian Pacific ranks among the greatest of the world's railroads but this is only part of its activities. In the specific commercial field its direct enterprises include the operation of airlines, ocean and lake steamships, hotels of international repute, commercial telegraph and express services, and dealings in its extensive land holdings.

The ownership of land and commercial properties especially in the Western provinces provide an asset of incalculable importance which augments in direct ratio to the rate of development in this area of tremendous virgin resources. In addition to a proprietary interest in farms, lumber mills, and coal mines, the Canadian Pacific has recently leased important tracts of land in the Turner Valley area for oil exploration purposes.

The Canadian Pacific has achieved more than the mere exploitation of its great economic empire. Through its Department of Industrial Development it has encouraged and assisted the migration of foreign industry to Canada. Its finest performance, perhaps in its self-imposed task of national development, has been in the field of immigration. Although the lack of population has always constituted the greatest drawback of the Dominion, the Federal Government has never initiated a positive policy. The C. P. R., however, has long recognized the urgency of this problem and through its Department of Immigration and Colonization and its Department of Natural Resources this unique organization has rendered inestimable service to the Dominion in attracting and assisting a large body of immigrants.

A survey of the company's activities is not complete without mention of the C. P. R.'s 51% interest in the Consolidated Mining & Smelting Company which operates, among other widespread mining properties, the Sullivan mine in British Columbia, the largest producer in the world of zinc and lead. With the recent sharp boost in base metal prices this interest becomes of even greater importance. Consolidated Mining & Smelting has also an extensive stake in newly discovered gold mines in Canada which are likely to loom larger on Canada's mining horizon if the Dominion Government takes the expected but greatly overdue steps to assist the Canadian gold-mining industry.

During the week there was a sustained demand for external bonds which remained unsatisfied in the absence of adequate supply. The new Alberta 3½s, however, traded in some volume at 1½ premium. Internal Dominion's long-term 3s were very strong and rose a full point to 99¾ before profit-taking caused a reaction. These bonds still appear attractive for long-term investment and it will not be surprising to see early action on the part of the Canadian authorities with the purpose of removing the recent causes of weakness in the free exchange rate and the market for internal Dominion bonds, which has reflected detrimentally on the Canadian credit standing in this country. Free funds, however, strengthened during the week and the mounting flow of industrial capital to the Dominion should ultimately offset capital liquidation and bring the free rate more in line with the official. Canadian stocks were generally dull but steady buying in golds persisted.

Tightens Sale of Can. Securities in U. S.

Foreign Exchange Control Board at Ottawa restricts sale of securities payable in U. S. dollars to maturities of less than three years and requires funds be resold to Canadian banks.

According to a despatch of Jan. 24 of the Canadian Press the Foreign Exchange Control Board has announced a tightening of restrictions on the sale of Canadian securities on United States markets by residents of Canada.

The changes relate to Canadian securities payable, or optionally payable, in United States dollars which mature or have a call day within three years.

The sale of such securities will be permitted only if the United States funds obtained from the sale are resold to a bank in Canada, or are re-invested in another Canadian foreign security of equally short maturity.

Up to the present it was permitted to re-invest the proceeds in United States securities.

The Canadian Foreign Exchange Board stated the change was made because there has developed a tendency to use the proceeds from the sale of Canadian securities on outside markets for the purchase of foreign securities.

Wilfred Godfrey, Treas. Of Keystone Custodian

BOSTON, MASS.—Wilfred Godfrey, formerly Comptroller of Keystone Custodian Funds, Inc., 50 Congress Street, was elected Treasurer and Director on Jan. 20. Keystone Custodian Funds, Inc., acts as trustee for a group of mutual investment funds, whose total assets are substantially in excess of $150 million. Prior to his association with this organization, Mr. Godfrey was with The United Fruit Co. and previously was associated with Peat, Marwick, Mitchell & Co., Public Accountants. Mr. Edgar M. Brister, formerly Assistant to the Comptroller, has been appointed Comptroller to succeed Mr. Godfrey. Prior to his connection with Keystone Custodian Funds, Inc., Mr. Brister was Assistant Treasurer to the U. S. Commercial Corporation, an affiliate of the Reconstruction Finance Corp.

Wilfred Godfrey

Stock Exchange Educational Film Sponsored By Merrill Lynch on WCBS-TV Jan. 30

"Money At Work," a film produced under auspices of the New York Stock Exchange for use in its educational program, will be shown over CBS Television, Thursday, Jan. 30, under sponsorship of Merrill Lynch, Pierce, Fenner & Beane, the country's largest brokerage firm. (WCBS-TV, Thursday, Jan. 30, 8:30 p.m.). This will be the first time a financial house has commercially sponsored a television program.

Winthorp H. Smith (left), Managing Partner of Merrill Lynch, Pierce, Fenner & Beane, signs contract with Frank Stanton (right), President of the Columbia Broadcasting System, for the first television show sponsored by a financial house.

Preceding the film showing, Winthrop H. Smith, Managing Partner of the investment firm, will outline briefly the purpose of the Stock Exchange's program of educating the general public about the securities business.

"Money At Work" delineates the mechanics and behind-the-scenes operations of the New York Stock Exchange. The film, which was produced by the March of Time for the Exchange, also seeks to make clear to the investor the safeguards which the various exchanges, as well as State and Federal governments, have erected to protect his interest.

Prints of "Money At Work" are being made available for showings at schools, churches, service clubs, etc., by the Exchange.

Outlook in Building Industry

(Continued from page 596)

which will tend to disappear with the freer flow of materials. Construction costs were largely increased because of material shortages. In the past contractors have required an average of seven to nine months to complete a house, because of interruptions in the receipt of materials. With materials flowing freely, contractors can build faster and more economically.

It has been a common experience for an operative builder to get his foundations in and his framing up, only to be obliged to stop work because he hadn't received his sheathing. When he got his sheathing his mill work was missing, then he had difficulties with hardware, plumbing, etc. All the while he had his labor standing by and being paid, but producing nothing. The minimizing of material shortages will cut these non-productive costs.

While the availability of labor will still leave something to be desired, there is no question that more labor will be available in 1947. A year ago many men were still in the process of getting out of uniform and it has required time in the interim to train new people in the construction industry. A great deal of progress has been made and is being made in augmenting the construction labor pool.

A few minutes ago I mentioned consumer confidence in lower costs as a condition to attaining the projected construction total. There is every likelihood that the public will have more confidence—and earlier—in modernization and repair costs, if for no other reason than that its investment in this type of construction is considerably less than that in the building of new structures.

While there appears to be no prospect for radical developments in building materials in the near future, within the next year or two improvements in familiar materials, many of which were developed in war production, will reach the consumer market. These will include fabricated building boards as replacements for lumber. Among them are insulating boards, plywood, gypsum boards and asbestos cement sheets.

More effective heating systems are in short range prospect, as are better designed and more colorful bathrooms and kitchens. There will be a wider use of glass in the providing of more light and air. The public is becoming increasingly conscious of fire hazards and there will be increasing demand for fireproof and fire resistant materials for both interior and exterior use.

The trend is clear and the banks have a good opportunity to move with it; to perform a real civic service in community improvement and to profit through home improvement financing. It's like that final one which the bartender pushes across the mahogany—It's On the House.

Lawrence R. Leeby Will Engage in Inv. Bsiness

MIAMI BEACH, FLA. — Lawrence R. Leeby will shortly engage in the securities business under the firm name of Lawrence R. Leeby & Co. Mr. Leeby in the past was in the investment business in Washington, D. C.

J. V. Everett Opens

WILLIAMSTOWN, W. VA.—J. V. Everett is engaging in the securities business from offices at 707 Columbia Avenue.

The International Bank

(Continued from page 599)

approval of the Government of the United States is required.

2. To give policy guidance to the representatives of the United States in the Bank and Fund.
3. To coordinate the participation of the United States in these international financial institutions with the foreign financial operations of the United States agencies such as the Export-Import Bank, the Treasury, etc.
4. To render periodic reports and recommendations to the Congress regarding the operations of the Bank and Fund.

The Congress also provided certain status, rights, and immunities to the Bank — for example, the Bank may sue and be sued in district courts of the United States.

Other countries followed suit and by Dec. 27, 1945 sufficient countries had accepted the Articles of Agreement to put them into effect. The Bank now has 40 members. Four nations, Turkey, Syria, Lebanon, and Italy, were recently made eligible for membership and may be expected to complete the formalities in the next month or so.

The Bank is governed by two bodies, a Board of Governors in which is vested all powers, and the Executive Directors who are responsible for the conduct of the general operations of the Bank. Each member government appoints a Governor and Alternate Governor and most countries have followed the practice of the United States of appointing the same persons to both the Bank and Fund. The United States Governor is the Secretary of the Treasury, Mr. John Snyder, and his alternate is the Under Secretary of State for Economic Affairs, Mr. W. L. Clayton. Other countries have generally appointed their Ministers of Finance or the heads of their central banks.

The Board of Governors met initially in Savannah last March, provided organizational and administrative procedures and regulations, delegated full operating authority to the Executive Directors, and elected the seven elective Executive Directors. The Governors held their first regular annual meeting at Washington in September.

There are 12 Executive Directors, one representing each of the five largest subscribing nations and seven elected by the Governors for the other member nations. Among the Executive Directors are many who have served in high posts in public and private financial institutions. The Executive Directors act as board under the chairmanship of a President whom they have elected and who has no vote except in case of tie. They have been meeting regularly twice a week since May 7 at the offices of the Bank in Washington. Voting in both the Board of Governors and the Executive Directors is based on the subscriptions of individual countries.

The President is the chief of the operating staff of the Bank and, under the direction of the Executive Directors, conducts the ordinary business of the Bank. Subject to the general control of the Executive Directors, he is responsible for the organization, appointment and dismissal of the officers and staff of the Bank.

The Bank has organized; it has called up capital; it has received and is considering certain loan applications; it is considering the marketing of its own obligations. It is, in short, a going concern.

Loan Operations

The principal purposes of the Bank are:

1. To assist in the reconstruction and development of territories of members by facilitating the investment of capital for productive purposes, including the restoration of economies destroyed or disrupted by war; the reconversion of productive facilities to peacetime needs and the encouragement of the development of productive facilities and resources in less developed countries.
2. To promote private foreign investment by means of guarantees or participations in loans and other investments made by private investors; and when private capital is not available on reasonable terms, to supplement private investment by providing, on suitable conditions, finance for productive purposes out of its own capital, funds raised by it and its other resources.
3. To promote the long-range balanced growth of international trade and the maintenance of equilibrium in balances of payments by encouraging international investment for the development of the productive resources of members, thereby assisting in raising productivity, the standard of living and conditions of labor in their territories.
4. To arrange the loans made or guaranteed by it in relation to international loans through other channels so that the more useful and urgent projects, large and small alike, will be dealt with first.
5. To conduct its operations with due regard to the effect of international investment on business conditions in the territories of members and, in the immediate postwar years, to assist in bringing about a smooth transition from a wartime to a peacetime economy.

Loan Conditions

For these purposes the Bank may make or participate in direct loans or guarantee in whole, or in part, loans made by private investors through the usual investment channels for the exclusive benefit of its own members. Such loans shall be subject to the following conditions:

1. When the member in whose territories the project is located is not itself a borrower, the member or the central bank or some comparable agency of the member which is acceptable to the Bank, fully guarantees the repayment of the principal and the payment of interest and other charges on the loan.
2. The Bank is satisfied that in the prevailing market conditions the borrower would be unable otherwise to obtain the loan under conditions which in the opinion of the Bank are reasonable for the borrower.
3. A competent committee, including members of the staff of the bank and a representative of the applicant, has submitted a written report recommending the project after a careful technical, engineering, and economic study of the merits of the proposal.
4. In the opinion of the Bank the rate of interest and other charges are reasonable and such rate, charges and the schedule for repayment of principal are appropriate to the project.
5. In making or guaranteeing a loan, the Bank shall pay due regard to the prospects that the borrower, and, if the borrower is not a member, that the guarantor, will be in position to meet its obligations under the loan; and the Bank shall act prudently in the interests both of the particular member in whose territories the project is located and of the members as a whole.
6. In guaranteeing a loan made by other investors, the Bank receives suitable compensation for its risk.
7. Loans made or guaranteed by the Bank shall, except in special circumstances, be for the purpose of specific projects of reconstruction or development.

Moreover, the Bank in the administration of a loan shall make arrangements:

1. To ensure that the proceeds of the loan are used efficiently and only for the purposes for which it was granted.
2. To ensure that the project for which the loan was granted will accomplish the purposes of the loan.
3. To insure that the service of the loan can and will be maintained.

These provisions will result in carefully considered loans of a productive character designed to increase levels of economic activity in the member nations, and to facilitate repayment by the borrowers.

The Bank has already announced the receipt of loan applications or letters of intent from Chile, Denmark, France, Poland, the Netherlands, Czechoslovakia, Luxembourg, and Iran. These requests cover both reconstruction programs and developmental projects. They cover only the financing of acquisitions abroad of materials and equipment and not local currency financing of labor and other local costs. They cover a range of maturities of from 10 or 12 to 25 years. All loans of the Bank will be subject to regular amortization.

Loan committees are actively considering the applications of France, Denmark, and Chile, which have been supported by extensive documentation, and loan decisions may be expected in the coming weeks.

A number of these applications had previously been brought to the attention of the Export-Import Bank. In a report to the Congress of last March the NAC indicated that the International Bank would be the principal agency to make foreign loans for reconstruction and development which private capital cannot furnish on reasonable terms. Pending the effective operation of the International Bank, the Export-Import Bank has extended such credits limited necessarily to the immediate minimum needs of the borrowers. With the coming into effective operation of the International Bank it is the policy of the United States in general to withdraw the Export-Import Bank from the business of making emergency long-term loans for reconstruction and development programs and projects. The Export-Import Bank has been so informing applicants for this type of financial assistance.

In the making and implementing of loans the Bank is prohibited by its Articles of Agreement from interfering in the political affairs of any member, nor shall it be influenced by the political character of the member or members concerned. Only economic considerations shall be relevant to its decisions, and these considerations shall be weighed impartially in order to achieve the purposes of the Bank which have been mentioned earlier.

Among the principal purposes of the Bank is the promotion of the long-range balanced growth of international trade and the maintenance of equilibruim in balances of payments, conditions which are important if the borrower is to be in a position to meet its obligations to the Bank. The Executive Directors of the Bank must, therefore, in passing on an individual loan application, give careful attention not only to the details of the particular project but must consider their relation to the broad trade, financial, and investment policies of the borrower as the latter might affect the useful carrying out of the project and the prospects of repayment of the loan. It is intended that the loans of the Bank shall be sound and shall be repaid. The Bank must avoid any political activity. But where policies of a borrower have important economic consequences bearing on the satisfactory attainment of the purposes of the Bank and the repayment of its loans; such policies and such economic consequences thereof must be given careful consideration in passing on the application.

Financial Structure

The authorized capital of the Bank is $10 billion. The subscriptions of the present 40 members amount to $7.8 billion. With the addition of the four additional countries mentioned earlier, the capital subscribed would rise to about $8 billion.

The Bank is authorized to call up 20% of its subscribed capital to serve as working funds. The other 80% may be called only as needed to enable the Bank to meet interest and amortization requirements of its own obligations to private investors.

The first 2% has already been paid in gold or dollars and an additional 8% in the local currency of each member. A further 5% has been called for payment by Feb. 25, 1947, and the Bank has announced its intention to call up another 5% by May 1947. In this manner the Bank has already received some $150 million representing the 2% portion which it has invested in short-term obligations of the U. S. Treasury. By May of next year it will have available about $720,000,000 of U. S. dollar funds, some $80,000,000 of Canadian and other funds immediately usable in loan operations, and the equivalent of almost $800,000,000 more in currencies not readily available for current loans although usable for such administrative expenditures as the Bank may incur in such currencies.

The Bank will thus have perhaps $800,000,000 of its own funds available for loans. For operations in larger amounts, and in order to replenish its working balances, it must have recourse to the private capital markets. It is anticipated that eventually the Bank will market its securities in a number of foreign markets—especially European — which have traditionally financed international investment. Exchange and balance of payments situations make it unlikely that any significant volume of securities may be placed in such markets in the transition period of reconstruction, and therefore the Bank must look at the outset to investment outlets in the United States and perhaps Canada.

The authorities of the United States have interested themselves in efforts to broaden potential U. S. markets for the obligations of the International Bank. Legislation legalizing such obligations has been suggested in the Federal-State legislative program of the Council of State Governments and the Department of Justice. The NAC has recommended action to legalize the obligations of the Bank for investment by insurance companies in the District of Columbia. Action in this field forms a part of the legislative programs of a number of national and state associations of financial institutions. Finally, meetings have been held with the principal investing institutions and state authorities in many parts of the country. It is, of course, too early to predict the final outcome but present indications suggest that action may be expected during the course of the present legislative sessions for many of the principal classes of investors in the states in which large investment funds exist.

The present status of eligibility may be briefly summarized.

Commercial banks in the United States, with capital and surplus of well over $7 billion, may generally invest up to 10% of their capital and surplus in securities of investment quality of a single issuer. No legal barriers exist in the case of national banks provided that certain requirements of the bank supervisory authorities are met. But in 12 states representing some 6% of the total capital and surplus of all banks, no investment by state banks is now permitted.

Mutual savings banks, with total assets of about $17 billion, exist in 17 states. In four of these, having 62% of the total assets investment in the obligations of the International Bank is now permitted. The principal one is, of course, New York, where eligibility legislation was enacted at the last session of the legislature.

Insurance companies in many of the states having an important volume of insurance assets, are now barred from investing in the obligations of the Bank. In certain others it may be possible by administrative or interpretative action to place the obligations of the Bank in legal investment categories.

Total assets of life insurance companies run to some $48 billion.

Trusts are in most jurisdictions permitted to acquire the obligations of the International Bank unless specific restrictions are incorporated in the instruments establishing the individual trusts.

The Bank has determined at all times to maintain a high degree of liquidity against its commitments to its borrowers and to investors in its obligations. This policy will require the holding of cash and other liquid assets, derived from paid-in capital, borrowings, and earnings, sufficient to cover undisbursed loan commitments and to provide resources to meet interest and amortization requirements on its obligations.

Obligations of the Bank

Although the Bank may guarantee the direct obligations of its members, it is not believed that at the outset at least, this will be the principal method of financing reconstruction and development. It may be expected that the principal business of the Bank will be the direct lending of its own funds and funds raised by the sale of its own obligations.

Such securities will be general obligations of the Bank, secured by the general assets of the Bank rather than by the pledge of specific assets.

The Bank, though not strictly speaking a corporation since it is not incorporated under the corporation laws of any U. S. jurisdiction, is a legal entity with most of the usual attributes of a corporation bestowed by international agreement implemented by the domestic legislation of the members.

The Bank may make loans or guarantees only to the extent of 100% of its unimpaired subscribed capital, reserves, and surplus—at the present time $7.8 billion. This automatically fixes the amount of its own obligations which the Bank may usefully issue. This also ensures that the Bank at all times will have at least twice as many assets as obligations to private investors—its loan portfolio plus its cash, segregated reserves, and unpaid capital subscriptions.

The Bank will apply for registration of the Bank's bonds with the SEC, and it will apply for listing of the bonds on the major exchanges. A first draft or prospectus and registration statement is now being discussed with the SEC.

The bonds may be issued in the United States only with the approval of the NAC. They will probably be issued in more than one maturity ranging from perhaps 10 years to 20 or 25 years.

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Mutual Funds

By JOHN DEAN

1946 Results

Additional reports received covering full year 1946 operations continue to indicate a superior showing by investing companies as compared with the general market.

Eleven open-end funds tabulated below generally did better than the general market, as measured by the Standard-Poor's 90-Stock Average, which showed a decline of 12% for 1946. By comparison, asset values of the 11 investing companies showed declines averaging 5½%, with seven of the 11 companies showing declines of less than that group average.

Particularly outstanding among the funds showing lower than average declines were Fidelity Fund and Broad Street Investing. Both of these funds are known as open-end stock funds, yet their asset values declined net of only 0.8% for Fidelity Fund and 1.4% for Broad Street Investing. This would compare very favorably with the open-end balanced funds, which are generally credited with comparatively high stability of asset values because of proportionate investing in defensive and aggressive securities.

Other funds showing much better than average fluctuation in asset values were Dividend Shares, State Street Investing and Selected American Shares, with net declines in asset values ranging from 2.3% to 3.7%.

There is no mystery involved in the consistently better showing by investing companies as compared with the general market. Beginning in September, security markets in 1946 had a wide range, and therefore managements had full play for initiative in adjusting portfolios or building up cash position or defensive securities.

Taking refuge in cash was, of course, justified at certain stages of the market last year, but it was by no means the principal reason for the excellent 1946 showing. Some companies listed do report a fairly large cash position at the year-end, the notable funds in this respect being Fundamental Investors, with 23% of assets in cash Dec. 31, 1946; and Massachusetts Investors Second and Selected American Shares, with 18% of assets in cash. But on the other hand, the companies tabulated which show the best relative conservation of asset values—Fidelity Fund and Broad Street Investing—had only 6% and 2%, respectively, of their assets in cash at the year-end. Consequently, the evidence indicates that managerial ability to select better than average security groups and situations had a great deal to do with the favorable experience.

In figuring net asset value decline for 1946 in the following table, asset values as of Dec. 31, 1946 have been adjusted for total dividends paid during 1946. Dividends, both ordinary dividend income and capital gains distributions, were generally substantial, thus affording high returns on asset values at the beginning of the year.

1946 Experience—11 Open-End Funds

	Asset Value Dec. 31, 1946	Asset Value Dec. 31, 1945	1946 Dividends Reg.	1946 Dividends Spec.	1946 Dividends Total	Asset Value Dec. 1946
American Business Shs.	$4.08	$4.93	$0.149	$0.25	$0.399	—9.1%
Broad Street Invest.	18.25	20.64*	0.73*	1.38	2.11	—1.4
Dividend Shares	1.54	1.72			0.14	—2.3
Fidelity Fund	24.73	26.95	1.00	1.00	2.00	—0.8
Fundamental Invest.	14.18	16.77*	0.33*	0.80	1.13	—8.7
Incorporated Invest.	23.80	30.44			2.10	—14.9
Mass. Invest. Trust	26.02	29.34	1.10	0.70	1.80	—5.2
Mass. Invest. Second	11.59	15.67	0.50	2.40	2.90	—7.5
National Invest.	10.68	11.90	0.30	0.41	0.71	—4.3
Selected American Shares	11.76	13.88	0.35	1.25	1.60	—3.7
State Street Invest.	44.49	53.90			8.00	—2.6

*Adjusted for 2:1 split-up.

News and Views

Affiliated Fund—Net asset value was $4.65 per share Jan. 8, 1947, compared with $4.34 per share Oct. 31, 1946. Assets Jan. 8, 1947 were 96% invested, with 4% being in cash and government securities.

Broad Street Investing—Liquidating value was $18.25 per share Dec. 31, 1946, compared with $14.27 per share Jan. 1, 1930, after payment of capital distributions of $2.90 per share and income distributions of $8.76 per share for the period.

Dividend Shares—Nation Wide Securities—Latest issue of "Perspective" reviews 1946 and concludes forecast for 1947 with following observation: "Although selectivity is always important, it promises to be particularly so in 1947. While we cannot rule out the possibility of a second leg of the bear market as a reflection of the economic readjustments lying ahead, we doubt whether this will be severe in degree or prolonged in time; and we believe that carefully selected common stocks at current levels on the basis of their favorable yields in relation to the prevailing yields of high grade bonds should provide satisfactory investment experience."

Group Securities—Bulletin on Building Shares points out that building material shares have advanced more from the October lows than the general market.

Investor Stock Fund—Net assets were $8,316,013 Dec. 31, 1946, compared with $3,693,809 Dec. 31, 1945. Number of shareholders has increased to 4,964 Dec. 31, 1946, compared with 2,250 Dec. 31, 1945.

Keystone—The 10 Keystone Funds had net assets of $159 millions Dec. 31, 1946, compared with $160,776,000 Dec. 31, 1945, after paying out $10,362,000 in special distributions and $6,751,000 in regular dividends.

Manhattan Bond Fund—Number of shareholders now totals over 13,000, with average holding of 220 shares. Sales of the Fund are reported to have been remarkably well sustained during recent months.

National Investors—From March 31, 1937, when this company became a mutual fund, to Dec. 31, 1946, a $1,000 investment in the shares has appreciated in value to $1,472, including $108 in capital distributions. Investing policy favors growth stocks.

National Securities & Research—Not available to dealers is a complete suggested mail campaign offering three different programs of National Series, each providing monthly income. New folders also available on Selected Groups Series, featuring favored industry shares, and Industrial Stocks Series, featuring growth stocks.

Selected American Shares—Bulletin compares the Fund's 6.3% net decline in asset value for 1946 (adjusted for capital gains dividends only), with average decline of 18.1% for the 25 most actively traded stocks on the N. Y. Stock Exchange, and average decline of 45% for 50 other well known stocks for 1946.

Wellington Fund—Assets Jan. 14, 1947 were 28.63% in cash and government securities; 19.56% in investment grade bonds and preferred stocks; and 51.81% in equities. This compares with Dec. 31, 1946 ratios of 24.29% in cash and governments; 19.64% in investment grade bonds and preferreds; and 56.07% in equities.

Dividends

Investors Stock Fund—Dividend of 12c per share has been declared, payable Feb. 20, 1947 to holders of record Jan. 31, 1947.

New York Stocks—Bulletin now available summarizes the tax status of 1946 dividends on all series.

[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.]

Move to Exempt News From Trust Laws

Representative Noah M. Mason (R.-Ill.) has reintroduced a measure, which he first proposed in the last Congress, designed to exempt news gathering agencies from the anti-trust laws, which he says is necessary to "clarify and nullify" a Supreme Court ruling that The Associated Press violated the Sherman anti-trust act through by-laws which limited its membership, Washington Associated Press advices stated on Jan. 8. The Chairman of the House Judiciary Committee, Representative Earl C. Michener (R.-Mich.), stated that the legislation would receive early consideration by his committee. The same advices added:

Hearings were held on the Mason bill last year. It was approved by a judiciary subcommittee, but it failed to clear the full committee before adjournment.

The chief section of the bill provides that the anti-trust laws shall not be construed to bar any "press service company" from using its own discretion in picking its customers.

NLRB Rules in Foremen Case

The National Labor Relations Board on Jan. 10 issued a unanimous decision on the foremen's issue, ruling that the Foreman's Association of America, an independent union, was a proper bargaining group in a Detroit plant belonging to the Chicago Pneumatic Tool Co., Inc., of New York City, the Associated Press stated in a dispatch from Washington. From these press advices we quote:

"James J. Reynolds, Jr., wrote a separate concurring opinion in joining in the decision with Chairman Paul M. Herzog and John M. Houston.

"In his separate opinion, Mr. Reynolds said that while he supports recognition of independent unions to bargain for foremen he is against one union representing both foremen and ordinary workers.

"Mr. Reynolds, newest member of the three-man board, has dissented in a recent foremen's case for that reason—the union involved represented both supervisory and rank and file workers.

"The Chicago Tool case came to NLRB on the independent union's petition for an election to determine if the company's Detroit plant supervisory workers wanted it to represent them in collective bargaining.

"By its unanimous decision the NLRB granted the petition and ordered the election held within a month. The Board said the case decided before it put into effect a temporary suspension of considering foremen's cases while the Packard case is before the Supreme Court."

The International Bank

(Continued from page 613)
and at least the longer maturities will be subject to amortization.

The bonds of the Bank will not be United States bonds, nor will they be guaranteed by the United States. They will be very well secured by the substantial assets of the Bank, by the conservative provisions of the Articles of Agreement, and by the competence of the management.

In setting up the International Bank to operate in the manner outlined above, it was recognized as essential that the securities that it would issue should be of high quality and fully suitable for investment by institutions and trustees in the United States. The Articles of Agreement were therefore drawn in such a manner that the resources of the Bank—consisting of its outstanding loans plus the securities in its reserve funds, plus the amounts due from member governments on their capital subscriptions — would be quite certain, at all times, to be more than sufficient to cover the Bank's obligations. One outstanding resource of the Bank will be the capital subscription of the United States Government, amounting to $3,175,000,000. The Bank's other resources will also contribute very important backing for its obligations, as the following discussion will show.

Perhaps the best way to analyze the security behind the Bank's obligations is to set forth, in an over-simplifed manner, a pro forma statement to the Bank's prospective position some years hence:

ASSETS
(Millions of Dollars)

Cash and Investments on Hand		
Cash and Investments		$ 900
Set Aside for Special Reserve		500
		$ 1,400
Holdings in Currencies other than U. S. Dollars		600
Loans Disbursed (including any guaranteed loans)		8,100
Loans Undisbursed		500
Uncalled Subscriptions		
U. S.	$2,540	
Other	4,260	6,800
Total		$17,400

LIABILITIES

Capital Subscribed	$ 8,500
Surplus	600
Special Reserve	500
	$ 9,600
Debentures Outstanding and Obligations on any Guaranteed Loans	7,300
Undisbursed Loan Commitments	500
Total	$17,400

This pro forma statement rests on the following assumptions:

1. Some new members have been admitted, increasing the capital subscribed by $500,000,000.
2. Sufficient time has elapsed for the Bank to reach a mature loan position with loan contracts continuously amounting to 90% of the loan limit and a very small lag of $500,000,000 in loan disbursements. It is unlikely that such high figures for loans committed and disbursed will ever be maintained.
3. Special Reserve has been computed at legal minimum of 1% per annum. Surplus has been estimated conservatively. These totals would be reached whether the rate of loan commitment and disbursement is relatively fast, say over an eight period, or much slower, say over 15 or more years.
4. No defaults are incurred on loans — a reasonable assumption during a period in which funds are being disbursed.
5. A small amount of Canadian and other currencies arising from the paid-in capital has been employed in making loans.
6. No securities have been issued except in the United States. To the extent that foreign currency obligations are issued the security behind the dollar obligations of the Bank is increased.

After the Bank has reached this stage, it may encounter periods of strain involving possible defaults by borrowers. It is, therefore, important to look closely at the various forms this strain will take and analyze the ultimate effects upon the Bank's securities.

In the first place, defaults to the International Bank are unlikely to be complete. Amortization may be postponed or interest may be paid only in the local currency of the borrower. Arrangements of this nature for three-year periods are contemplated in the Bank's Articles of Agreement. If the defaults are of an isolated nature, not occasioned by overall world conditions, the Bank might work the matter out over a period of time with the borrowing nation, and if the settlement should be at less than 100 cents on the dollar, the loss to the Bank would be of such a minor nature that it could be handled by charging the special reserve and retiring an appropriate amount of the Bank's own outstanding obligations. Suppose, however, that there is a persistent world condition occasioning a substantial number of defaults. Even under these conditions, one cannot assume that all borrowers would default, or that all defaults would be complete. Certainly, it would be only after repeated years of depressed world conditions that the Bank's income from interest and amortization and commissions would be drastically reduced. During this period, dollars on hand and the investments in the special reserve fund would provide the Bank with a considerable amount of liquid assets with which to meet payments on its debentures and guaranteed securities. In the pro forma statement above, the total of these two assets amounts to more than 10% of the total obligations of the Bank to investors. For example, service amounting to 6% annually (interest and amortization charges) on $5 billion of the Bank's obligations could be maintained, without calling on the Bank's unpaid capital, for a period of three years.

Let it be assumed now that the depressed world conditions referred to earlier have continued and that the Bank's gold and dollar liquid assets on hand have been largely exended. At this point, the Bank would turn to its capital subscribed but not paid in. The debt record of the member countries provides an interesting criterion by which to measure the soundness of the Bank's capital. The United States and Canada, which have subscribed 45.6% of the capital, enjoy the highest credit in the world. The sterling group (United Kingdom, India, Union of South Africa, and Egypt) has never defaulted on any of its publicly-held obligations, external or internal. This group has subscribed to 24.0% of the capital. Western European countries, with 13.2% of the subscribed capital, have the same record on their obligations. The remaining 17.2% is subscribed by the remaining countries, and among these are quite a few whose debt history is very good. On the basis of past performance, the Bank's capital resources appear to be of high quality.

The uncalled 80% of the 3,175,000,000 capital subscription of the United States is available without further legislative action to meet such calls as may be issued by the Bank in accordance with its Articles of Agreement. Subsection (b) of Section 7 of Public Law 171 of the 79th Congress (Bretton Woods Agreements Act) reads as follows:

"The Secretary of the Treasury is authorized to pay the balance of $950,000,000 of the subscription of the United States to the Fund not provided for in subsection (a) and to pay the subscription of the United States to the Bank from time to time when payments are required to be made to the Bank. For the purpose of making these payments, the Secretary of the Treasury is authorized to use as a public-debt transaction not to exceed $4,125,000,000 of the proceeds of any securities hereafter issued under the Second Liberty Bond Act, as amended, and the purposes for which securities may be issued under that Act are extended to include such purpose. Payment under this subsection of the subscription of the United States to the Fund or the Bank and repayments thereof shall be treated as public-debt transactions of the United States."

Furthermore, the obligation of each member on its subscription to the capital of the Bank is independent of the obligations of other members, and 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.

It is reasonable to assume that a call of capital to meet current debenture needs would hardly exceed 5% per annum, given an appropriate staggering of maturities and long-term obligations, and this fact greatly increases the prospect that member countries will be able to meet these calls. For example, the United Kingdom might be unable to pay 1.3 billion in dollars (her capital subscription) if called in any one year, but it is most unlikely that she would be unable to deliver $65,000,000 or 5% of her capital subscription in any one year. The unlikelihood of such can be further high-lighted by reference to the probable size of the British payments to foreigners in the postwar period, which it is estimated will run around $8 billion annually. Similarly 5% of Belgium's subscription amounts to $11,250,000, while Belgium's assets in the United States amount to some $694,000,000. Honduras might well fail to produce 1,000,000 U. S. dollars, if called in any one year, but it is highly improbable that it could not muster a payment of $50,000. It should be observed also that a large majority of the Bank's capital is subscribed by countries that are not likely to be borrowers or by countries that are very unlikely to be in default on their debts.

No Risk of Currency Depreciation

The Bank will not incur any risks of currency depreciation. Its loans out of the proceeds of the sale of debentures must be denominated in the same currencies as the debentures. Also its local currency capital must be maintained by the members at the equivalent in U. S. dollars of 1944.

It has been the purpose in the foregoing paragraphs to conceive of the worst situations, both in terms of global amounts and in terms of time. The factor of time materially strengthens the position of the Bank and of the investors in the Bank's securities, and no analysis which does not take this factor into account can be considered realistic.

However, a balance-sheet analysis omitting the time factor can be made. Summing up the assets shown in the pro forma balance sheet previously set forth, it is seen that the total of the special reserve fund investments and U. S. dollars on hand, plus 80% of the U. S. capital subscription, amounts to $3.9 billion, definitely and certainly available in U. S. dollars without recourse to any other government. Omitting the problem of interest, this sum will take care of more than 50% of the Bank's total obligations to investors, leaving $3.4 billion of obligations to be met in other ways. Against these obligations, the Bank would have its loan portfolio of $8.1 billion, $4.2 billion of capital subscribed by other countries, and $0.6 billion of other currencies which, for this purpose, the members have agreed would be convertible into dollars. This is a total of $12.9 billion in promises of members to pay in dollars. In other words, promises to pay of members other than the United States would cover the Bank's obligations by a ratio of 3.8 to 1. Such coverage would go far beyond anything which past experience or future expectations would lead one to believe necessary.

Expressed in another way, at the mature loan position a recovery of only 26% on loans and uncalled subscriptions of members other than the United States is required to meet in full the principal of the obligations of the Bank. At an intermediate point with about five billions of loan commitments and say $3.6 billion of funds raised in the market, no recovery whatever on the "foreign" assets of the Bank is required to meet the Bank's principal obligations.

In assessing the significance of this great margin of coverage for the Bank's bonds, it is useful to consider analytically the record of the foreign loans in the past. The errors of foreign lending in the twenties are unlikely to be repeated; not only are the lessons to be learned from that period still fresh in mind, but many safeguards and limitations are written into the Bank's Articles of Agreement to prevent any recurrence in the future. Nevertheless, it may be worth pointing out that the record of returns on these past foreign loans is hardly as black as is sometimes assumed. A recent study by the Bureau of Foreign and Domestic Commerce, covering the period from 1920 through 1940, provides the basis for estimates on the subject. To summarize this study, American investors have gotten out of their portfolio investments (stocks, bonds, etc.) $1.5 billion more than they have put into such investments. Direct investments by Americans have made an even better showing, the excess in this case amounting to $7.2 billion. A table containing additional details on the foregoing is appended. Even though the records on portfolio investments during this period was not brilliant, a return of even these proportions would be far more than needed by the International Bank in order to protect its bondholders from any loss.

It has been sought in the foregoing paragraphs to demonstrate the great economic stress the Bank is designed to withstand, and what this inherent strength means to holders of the Bank's obligations. Certainly, should any such condition as those premised in this paper occur, the record the securities of the Bank would make would compare very favorable with the record of other securities during the same period.

Perhaps not sufficient attention has been focused on the very real prospects that the Bank may operate with few, if any, calls on its capital. Certainly, this would be the measure of complete success. The Bank and its members expect this to occur, and operations based on anything less than this goal would not agree with the spirit of the institution. The Bank, however, is merely a part of the world economic scheme. The future of the United Nations, the International Monetary Fund, the proposed International Trade Organization, are closely related to the success of the Bank as an international lending organization. Proper world trade policies, exchange stabilization, and political stability are important to the Bank and the organizations named are directly concerned with them. These are significant matters, and failure in these fields may mean the Bank will lose some part of its capital. Nevertheless, the investors in the Bank's obligations should suffer no financial loss.

* * *

Following is a tabulation showing the private foreign investment experience of the United States, 1920-40.

PRIVATE FOREIGN INVESTMENT EXPERIENCE OF THE UNITED STATES, 1920-40*
(In Billions of Dollars)

	Portfolio Investments (Stocks, Bonds, Etc.)	Direct Investments	Total
1. What the United States put in:			
Estimated investments abroad at end of 1919	2.6	3.9	6.5
Net new investments abroad from 1920 through 1940 (gross new investments abroad of $11.8 billion less amortization receipts on foreign dollar bonds and net resales of foreign securities to foreigners of $4.9 million)	3.6	3.3	6.9
Total	6.2	7.2	13.4
2. What the United States got out:			
Value of investments abroad at end of 1940	2.8	7.0	9.8
Income payments received on investments abroad from 1920 through 1940	4.9	7.4	12.3
Total	7.7	14.4	22.1
3. Excess of what the United States got out over what the United States put in	1.5	7.2	8.7

*Includes investments in Canada.
Source: Testimony of Wayne C. Taylor before House of Representatives' Committee on Banking and Currency.

Securities Salesman's Corner

By JOHN DUTTON

It is a fortunate salesman that can pick his customers. Most of the time however, a salesman has to accept the customers that he has on his books. Only a few are so fortunate as to be able to keep the customers that represent the most desirable accounts. Human nature being what it is, there are always those who take an unreasonable attitude when markets decline. Sometimes in order to hold some clients in line, you have to open their eyes to reality. Otherwise you'll lose out.

Every salesman knows his customers. You can tell from a word or two just what you are going to be up against the next time you have a talk with a customer who seems to be desirous of placing you on the defensive regarding some recent purchases that have declined in market value. When you get your first hint that this is about to happen, then it is a good idea to do some pencial and paper work in your own office before you have your next session with such an account. If you have to hunt for bear, go loaded for bear.

Go back to the first transaction you had with this account. Check up all purchases and sales. Record profits taken in one column, and losses in another. Put dividends received during the time held in another. Show current market prices of securities still in the account. Show paper profits and losses. Sum up the entire operation and have it in black and white. The chances are that the record is good. Then when Mr. Customer greets you with some cheery remark such as "Well, I didn't make much money doing business with you last year," you can reply, "Let's look at the record." You can make a much stronger case without placing yourself on the defensive by explaining that you have been making an analysis of a number of your accounts and that his was included in this survey. Then take your pencil and go over the whole thing step by step. By the time you get through you will be able to show that recent paper losses are only part of the story and that the overall situation is good.

Here is another very important thing about selling securities. You must get the idea across to your customers that it is the results as a whole which are important. Whether an account is large or small, it pays to set it up in black and white and show a customer what has been accomplished. In this way, you present losses in their proper light. You must have losses. Anyone who thinks you can invest money without taking losses is looking at this business from an entirely warped and unrealistic viewpoint. But losses that are offset by profits where the general balance is favorable over a period of years, that is another story. By putting a record down on paper where a customer can see what has been done, clarifies this whole subject of losses and places each security in the portfolio in its proper relationship to the entire fund.

Your customers should be encouraged to look upon their entire investment fund as an entirety. When this viewpoint is firmly established profit-taking and LOSS-TAKING WHEN NECESSARY are no longer considered as individual or isolated operations but as part of the whole investment objective, which is the general improvement of the entire account.

When customers are inclined to look upon their last few purchases that may have declined in market value during a period of generally depreciating prices, and to over-emphasize those paper losses, it is time you put their thinking back on the right track. Remember it is not what you have today that counts when you are investing in securities but where you will be next year and the year after that. Investing money is never a static operation. Don't allow any customer to put you on the spot because a few securities have declined in price. You are not going to be able to help him very much if this is his attitude toward his investments. It is the healthy over-all condition of his entire investment account that is the important consideration at all times.

Inflation Danger—Heritage of War Finance

(Continued from page 592)

efforts were made in this country to raise as much of its cost by taxation as was feasible and to finance the rest so far as possible by tapping the savings of the people. Fiscal and monetary authorities were agreed that financing through banks, which results in the creation of new money, should be kept to the necessary minimum. Nevertheless the banks had to be relied upon to a large extent, and also policies had to be followed to assure a high degree of liquidity for securities sold to the public. Purchases by banks were needed not only to help maintain an active market and to facilitate the general sale of securities, but also to provide the increased money supply needed by the expanding and abnormal war economy.

Although some expansion in the money supply and in banks' holdings of government securities was desirable, the amount that actually occurred was no doubt excessive. "In retrospect," to quote from the Annual Report of the Federal Reserve Board, "it is evident that more vigorous policies should have been adopted in order to raise more of the cost of the war through taxation and to restrict bank purchases of government securities." Many of the financing procedures adopted encouraged banks to purchase more securities than it was necessary for them to buy and thus helped to complicate the problem of postwar adjustments.

As a result of policies adopted to facilitate the financing of the Government's needs during the war, there was a tremendous growth in bank holdings of Government securities. Total funds raised by the Treasury in the period from the middle of 1940 to the end of 1945 amounted to 383 billion dollars. Over 40% or 153 billion dollars of this amount came from taxes. About 230 billion was obtained by borrowing, of which about 100 billion came from the banking system, including commercial banks, Federal Reserve Banks, and mutual savings banks.

Another policy adopted during the war to facilitate war finance was the maintenance of the interest-rate structure at approximately the level existing at the beginning of the war. This policy served a three-fold purpose: (1) it kept down the interest cost to the Government; (2) it encouraged prompt buying of securities by investors, who might otherwise have awaited higher rates; and (3) it kept the growth in bank and other investors' earnings to moderate amounts consistent with the purposes of war finance.

The interest-rate structure existing at the beginning and generally maintained throughout the war consisted of very low rates on short-term money, with a wide spread between them and rates on long-term securities. This unusual interest-rate relationship came into being during the years of depression when there were reduced demands from borrowers and at the same time large gold imports and unused bank reserves.

Maintenance of the wide differential between short-term and long-term interest rates during the war, however, encouraged expansion of bank credit because it was possible for banks to sell short-term securities to Federal Reserve Banks and buy longer-term issues bearing higher rates of interest, which in turn were stabilized. The new bank reserves created by sales of securities to the Reserve Banks provided the basis for a deposit expansion at all banks in the country of ten times the volume of such sales.

Another result of these policies was a decline in long-term interest rates. An implied assurance that prices of long-term securities would not be permitted to decline removed an important distinction between long and short-term securities, and this policy, together with maintenance of the low rates on short-term securities, encouraged holders to shift from short-term to long-term issues. As long as the Reserve System stood ready to purchase short-term securities at prevailing rates these rates could not rise. The longer-term rates declined. These low long-term rates have necessitated substantial adjustments for life insurance companies and other savings institutions.

The method of handling the war loan drives also was a stimulus to bank credit expansion. Nonbank investors could sell previously acquired issues to banks and subscribe for new issues, thus helping to attain quotas. Banks during the drives had excess reserves because deposits against which reserves were required were drawn down in the purchase of securities, while Treasury deposits, against which no reserves were required, increased. This shift of funds resulted in a reduction in member banks required reserves.

As a result of these operations, bank holdings of government securities increased substantially during drives. Between drives, as deposits were reshifted and required reserves increased, banks sold sufficient securities to the Federal Reserve to meet the higher reserve rquirements. The net result was a gradual expansion in bank holdings of government securities throughout the war period.

Commercial banks increased their holdings of United States Government securities by approximately 70 billion dollars. At the same time their loans expanded to the highest level since 1930. As a result of the growth in assets, bank earnings increased substantially during the war and in relation to capital funds were at the highest level on record during 1945.

Banks were able to expand their holdings of securities by any amount they could obtain because additional reserves were almost automatically supplied by the Reserve System in following its policy of keeping down short-term rates. The volume of short-term securities outstanding was sufficient to permit a much further expansion of Federal Reserve holdings. In effect the banking system was permitted, in a sense encouraged, to expand its earning assets, and the necessary reserves were supplied. Banks incurred additional expenses in servicing the greatly increased wartime monetary demands, but were adequately compensated by the earnings received.

The result of these developments was a tremendous expansion in the liquid asset holdings of the public. The holdings of deposits and currency by individuals and businesses increased by 100 billion dollars to 2½ times the prewar level. The inflationary potential in this expanded money supply is roughly indicated by the increase in its ratio to the annual value of the country's total production of all goods and services. This ratio is now about 80% compared with 70% or less in the late 1930's, a period of considerable unemployment and unused resources, and with a little over 50% in the 1920's, a period of active business and full employment.

In addition to the greatly expanded holdings of deposits and currency, individuals and businesses have nearly 100 billion dollars of government securities, or eight times the prewar level. These can be readily converted into cash as long as the Federal Reserve Banks stand ready to buy them. This is an aspect of the present situation which has no precedent in economic history and is of incalculable significance.

Inflationary developments that have been evident during the past year and are now approaching a climax unquestionably had their seeds in war finance. As indicated, however, war and its finance are necessarily inflationary. Their effects must be counteracted by direct controls over demand, supplies, and prices, which cannot possibly be in equilibrium during war and its aftermath without stringent taxation. We avoided serious inflation during the war by the maintenance of controls, as well as through the public's exercise of voluntary restraint.

Current fiscal developments and monetary policies are not now adding to inflationary pressures. The budget is balanced. The Treasury's debt-retirement program is exerting a drain on bank reserves and has brought to an end over-all expansion in bank credit. Bank holdings of government securities and loans on securities have been considerably contracted. There has been, it is true, considerable expansion in bank loans to businesses, on real estate, and to consumers. These loans reflect in part needs for the expanding production and distribution of civilian goods, but probably also reflect some speculation and excessive commitments. The more important inflationary pressures, however, are the result of past developments and are beyond the realm of any short-term monetary and credit restrictions that could now be imposed.

The superabundant volume of money has already been created through expansion in the public debt and can be reduced only through contraction in that debt or by a shift from banks or other holders who regard their securities as liquid assets to more permanent investors. Such changes can occur only slowly. To bring them about and in the meantime maintain a reasonable degree of stability in the government securities market are the major postwar problems of fiscal and monetary administration.

The Problem of Postwar Monetary Policy

In view of wartime developments, the central problem that will face the Federal Reserve System in the future is to reestablish and maintain control over bank credit expansion—the main function for which the System was founded. The increases of more than 50 billion dollars in commercial bank holdings of government securities and of 100 billion in holdings of businesses and individuals, which can be readily sold to the Reserve Banks and thus create additional bank reserves, make it difficult, and perhaps impossible for the System to exercise effective control. The reserves that could be created would provide the basis for a ten-fold expansion in bank credit and bank deposits.

It has been suggested that credit expansion could be prevented if the Reserve System would refuse to purchase additional government securities or would purchase them only at higher rates. It is true that a narrowing of the spread between the yields on short-term and long-term securities would remove the incentive for banks and other investors to shift short-term securities to the Reserve System in order to purchase longer-term ones.

A policy of permitting short-term rates to rise, however, would increase the cost to the Treasury of carrying its short-term debt and would complicate the Treasury's refunding problem. It would also increase bank earnings, which are already more than adequate. It has been frequently stated that the System's refusal to follow this course of action is based entirely upon these considerations, expressed in its commitment to the Treasury to maintain a low level of interest rates. It would be more correct to say that the System's commitment is based upon its view that under present conditions a rise in short-term interest rates would not accomplish the desired result of preventing credit expansion and might have harmful effects.

Should the Reserve System refuse to purchase government securities offered for sale and not taken by others, then interest rates would be subject to wide fluctuations. With 260 billion dollars of the public debt broadly distributed among individuals, businesses, and investment institutions, the possible effect of fluctuating interest rates upon the financial position and the actions of these holders is difficult to predict. The consequences of attempting to use such a remedy might be more harmful than the disease.

The System would have to purchase government securities at some rate. It is not possible to know how much of a rise in interest rates would have to occur to stop sales to the Reserve System. Any rise in short-term rates might be accompanied by a rise in long-term rates. If short and medium-term rates should rise, the premium to investors for making long-term commitments would be reduced and shorter-term investment made correspondingly more attractive. New investment funds would prefer shorter-term as against long-term investment because of the possibility that long-term interest rates might eventually also rise. Higher short and medium-term rates would thus generate uncertainty as to the course of long-term interest rates. It might even bring about shifting by investors from long to shorter investment, with such shifting itself acting as a force to raise long-term rates. If long-term rates were permitted to rise, one effect of uncertainty might be to jeopardize the savings bond sales program and cause wholesale redemptions.

While some degree of uncertainty may be desirable, particularly when bonds are selling at substantial premiums, there is a limit as to how far this can be carried without seriously upsetting the market. The events of recent months when long-term bond prices have fluctuated within a range of 4 points indicate that purchases of these bonds at premium prices are not without some risk.

It is doubtful whether any rise in yields on government securities would discourage banks from selling those securities in order to make private loans or to invest in corporate bonds, if attractive loans and investments were available. Experience shows that changes in Federal Reserve discount or buying rates alone have not been sufficient to stop or even effectively restrain a speculative credit expansion. These changes would be even less effective in a situation where their primary effect would be upon prices of outstanding government securities, rather than upon private borrowers.

Long experience with brokers' loans shows that banks will withdraw funds from the central money market in order to take care of the demands of their customers and that they will not be discouraged from doing so by high money rates. In the case of brokers' loans the loans called had to be shifted to other lenders, whereas in the case of government securities the banks need only to sell them to the Federal Reserve and thus create additional reserves. Some power other than that of higher interest rates is needed to deal with such a development.

In view of this heritage of war finance, the Federal Reserve System is faced in the postwar period with a two-fold problem: to prevent speculative or otherwise excessive expansion of bank credit and at the same time to assure reasonable stability in the prices of the large volume of government securities outstanding. There must be limits to the ability of banks and others to convert government securities into additional bank reserves and this must be accomplished without widely fluctuating interest rates.

Solution of this basic long-run problem can be assured only by giving the Federal Reserve System additional instruments of regulation such as those suggested in the 1945 Annual Report of the Federal Reserve Board.

The three basic plans proposed by the Board for consideration by the Congress may be designated by the following terms:

(1) A primary reserve plan.

(2) A secondary reserve plan.

(3) A bond limitation plan.

These three proposals have many similarities and also important differences. In each case adoption would require legislation, which should permit considerable administrative flexibility, because of the wide differences between individual banks and groups of banks. It would also be necessary that they apply to all commercial banks, not alone to member banks of the Federal Reserve System. These powers could be so applied as to leave banks adequate ability to take care of the credit needs of industry, commerce, and agriculture but would give the Reserve authorities some control over excessive expansion of such credits.

The primary reserve plan.—This plan is simply a further increase in commercial bank reserve requirements. In order to keep short-term interest rates from rising, it would have to be accompanied by Federal Reserve purchases of securities. The amount of such purchases would probably correspond closely to the increase in requirements. To assure adequate powers to absorb a large portion of short-term securities held by banks, the law should authorize an increase to twice the present statutory maximum, but any increase in requirements probably should be applied gradually and might never reach the maximum.

The principal effects of this measure would be (1) to shift a certain amount of earning assets, presumably short-term government securities, from commercial banks to Federal Reserve Banks, and (2) to reduce the ratio of multiple credit expansion on the basis of a given amount of reserves. It would, therefore, diminish the amount of short-term securities available to sell to the Reserve Banks and also reduce the potential credit expansion on the basis of any reserves that might be created by such sales.

This measure could be applied to put the banks under pressure to liquidate securities and thus discourage further purchases of long-term issues, while Federal Reserve support would keep interest rates from rising above the established pattern. It would correspond to present banking practices, be relatively simple to operate, and permit adjustments in the market because of interbank flows of funds to be carried out as at present.

The proposal would tend to reduce the earnings of commercial banks and increase those of the Reserve Banks. If this plan were adopted it might be desirable for the Reserve Banks to have power to pay some interest on reserve balances, in case bank earnings should be unduly reduced.

Legislation authorizing this action might also include provisions for amending various aspects of the present requirements, such as permission to count vault cash and greater administrative flexibility in imposing different requirements on different types of deposits and in classifying banks for reserve purposes.

The secondary reserve plan would establish a required secondary reserve of Treasury bills and certificates equal to a specified percentage of net demand deposits. This percentage might be placed initially at a level that would induce commercial banks as a group to retain their present holdings of short-term government securities—probably around 20 or 25% of net demand deposits would be sufficient. Subsequently the percentage should be sufficiently high to assure for such securities a commercial bank demand large enough to maintain the desired level of rates without Federal Reserve purchases.

To facilitate transition to the new plan, as well as regular adjustments of bank positions required by interbank flows of funds, banks should be permitted to hold cash (including reserve balances) as secondary reserves in place of bills and certificates. This feature, which distinguishes this plan from that proposed by Lawrence Seltzer,† is essential to make the plan effective as a limitation on bank credit expansion. Otherwise it would be necessary for the Treasury to supply bills or certificates to banks needing them to meet their secondary reserve requirements against expanding deposits. This would mean further credit expansion and deposit growth.

This plan has the advantage of permitting banks to retain substantial holdings of short-term Government securities, but limiting their ability to sell these to the Reserve Banks in order to make other loans and investments. This plan is essentially similar to the primary reserve plan, except that under the secondary reserve plan the commercial banks could continue to hold the short-term government securities whereas in the primary plan the Reserve Banks would hold them.

The secondary reserve proposal has been criticized because it would purportedly require the banking system to increase holdings of government securities every time there was an increase in deposits resulting from expanding loans. It is, of course, true that credit expansion would increase the amount of required reserves, as at present. Banks would have the alternative, as they do now, of liquidating some other asset or of borrowing from the Reserve Banks. nder the proposed plan they could not reduce their holdings of Treasury bills and certificates, unless they had an excess, but would have to sell long-term issues out of their portfolios. The plan would establish short-term government securities in a preferred market position over other types of short-term paper. An important disadvantage of this plan is that the double set of reserve requirements might complicate adjustments necessary in the case of interbank flows of funds, but it is possible that such a scheme would be no more complicated in practice than the present system.

The bond limitation plan would limit a commercial bank's holdings of bonds to no more than an amount corresponding approximately to savings deposits and capital accounts plus some percentage of its net demand deposits. In a sense this plan would merely extend the policy pursued during the war of restricting bank investment in long-term Treasury bonds. At the outset these percentages might be established at levels that would prevent commercial banks from adding to their present holdings of bonds—an average of about 50% of net demand deposits or maybe even higher would cover the bulk of the commercial banks. Eventually the percentages should be sufficiently low to assure a commercial bank demand for short-term government securities large enough to maintain present rates without Federal Reserve purchases.

This limitation should apply to all bonds, or probably to all single payment marketable securities having a final maturity of more than one year at time of issue, or it might be more limited in scope. It would have to cover obligations of state and local governments and of corporations; otherwise United States securities would have a disadvantageous market position. Bonds within a year or perhaps within five years of maturity might be exempt from the limitation, but such exemption would cause sudden adjustments in the market and in the banking position as large issues came out from under the limitation.

This measure would not restrict bank lending activities and might even encourage them. It would leave the various sectors of the short-term market—Government and private—on a comparable basis. Adjustments of reserve positions between banks would not be particularly complicated by this plan, although some reductions in bond portfolios might be necessary if banks lost deposits, particularly time deposits, and increases would be permissible in case of additions to deposits. This plan would be less restrictive than the others because it would not restrict banks in shifting from short-term securities into loans, although by lowering the amounts of bonds banks could hold, the authorities could force liquidation of bonds, rather than short-term securities, to offset any loan expansion.

Any of these various plans could, once established, be fairly rigidly maintained, while traditional Federal Reserve open-market and discount rate policies were relied upon for current policy measures. Alternatively these new schemes could be flexible in their application, with requirements and limitations being varied as bank credit and monetary developments and prospects might justify or require.

It should be made clear that these proposals are not revolutionary or drastic nor would their application interfere unduly with the detailed operation of banks. They are not devised to save the Treasury interest or to keep down bank earnings, although they could have these results, but are primarily to make possible the use of effective controls over credit expansion. They are in accord with the traditional Federal Reserve instruments of open-market operations, reserve requirements, and discount rates, and are essential for the effective use of those instruments in the future.

The use of any of the new instruments would not necessarily mean rigidity in the level and structure of interest rates. It may be said that some such measure is necessary before policies can be adopted which would bring about changes in interest rates on private debt. These measures are designed to set off a large part of the public debt and of bank investments in a way that would free them from the influence of changing interest rates. Savings bonds and even a large portion of marketable obligations held by institutional and other permanent investors are ordinarily not seriously perturbed by variations in interest rates. That portion of the public debt held in the active money market, as well as private debt, could be traded freely and permitted to fluctuate without the danger of these fluctuations causing widespread repercussions.

If the economy should be in position where investment demands exceeded the available supply of savings, then interest rates might be permitted to rise rather than have an inflationary expansion in bank credit. On the other hand, it would be possible to prevent an expansion in credit which would depress the level of interest rates unduly, as was the case early in 1946.

Nor would these instruments unduly restrict banks in making loans. Their purpose, of course, is to give the System authorities power to limit credit expansion—a power they were created to perform but can no longer exercise. Any limitation on the supply of bank reserves, however applied, or on the ability of member banks to rediscount is in some degree restrictive on bank lending.

It is hardly impressive to raise the "bogie" of restricting bank lending at a time when many types of bank loans have just expanded more rapidly and have risen to higher levels than at any time in history. If banks want to take care of the needs of their customers it would be better for the maintenance of a stable credit structure if they would sell securities that non-bank investors will absorb and not those which will be purchased only by the Federal Reserve Banks. Through the one process there would be no net credit expansion, whereas through the other there would be a growth in bank reserves which would permit multiple credit expansion. Application of these new powers by the Federal Reserve could, and should, be so regulated as to provide banks with adequate funds for meeting all sound needs of commerce, industry, and agriculture. It is the task of the Federal Reserve authorities *to supply* the banks with enough reserves to meet those needs, as well as to prevent expansion in the available supply of reserves beyond the amount needed for sound credit demands. It has adequate capacity for permitting expansion but practically no power to prevent expansion.

In summary, it may be said that because of the large money supply and the greatly increased capacity for further expansion which is the heritage of war finance, the credit situation in the postwar period is likely to be an unstabilizing influence upon the economy. The money supply, actual and potential, is large relative to current output and incomes, even at present inflated prices. Additional measures may be needed to exercise more effective control over the supply and use of credit than would be possible under existing powers.

In concluding, it might be appropriate to quote the London "Economist" regarding the Board's proposals, as follows:

"It comes as a surprise to learn from the 32nd annual report of the Governors of the Federal Reserve System that the highest banking authority in the United States is submitting for the consideration of Congress proposals for the control of American commercial banking, the like of which has never even been contemplated in Socialist Britain."

The "Economist" then adds the further significant comment:

"Before pushing the paradox too far, allowance should be made for two factors. The first is that the United States is a country with a written Constitution where every executive action and every policy must, if possible, receive the garb of precise legalism and statutory enactment. What many other countries prefer to achieve by informal consultation and by gentlemen's agreements must in America receive the compulsion and sanction of law. The second factor is that the moral ascendancy of the central banking authorities in the United States is not quite comparable with its counterpart in Britain and that an Act of Congress may be needed to do less well what can often be achieved by a nod from the 'Old Lady of Threadneedle Street' in this country."

†Lawrence H. Seltzer, "The Problem of Our Excessive Banking Reserves," *Journal of the American Statistical Association*, Vol. 35, No. 209 (March, 1940), pp. 24-36.

Will World Bank Securities Meet Accepted Investment Standards?

(Continued from first page)

can be conducted in such a manner that, barring an almost total breakdown of international financial transactions, it will remain solvent.

Numerous technical descriptions of the history and organization of the World Bank and the International Monetary Fund (which cannot be disassociated) are available, and accordingly this study will be directed primarily towards analysing the probable operating policies of the Bank in an endeavor to determine under what conditions the debentures or other securities the Bank may issue in this country, will meet accepted investment standards. Such an approach is also useful since the essentials can be emphasized and are not lost in a maze of minor detail.

Bank's Fundamental Conception

Fundamentally the World Bank was conceived for the purpose of promoting private foreign investment and to provide funds for the international flow of goods for *productive purposes*, when such funds could not be obtained otherwise at reasonable rates. This is clearly set forth in Article I of the Articles of Agreement. The Bank will provide both the foreign exchange and the credit with which capital goods can be purchased. Capital goods will undoubtedly be interpreted broadly to include not only building materials, machinery, transportation equipment and the like; but such items as salaries for technicians payable in the currency of their home country. To a limited extent, and presumably on a relatively short term basis, working capital in the form of raw materials would also be included. In respect to the latter, in particular, it is to be expected that the Bank will proceed with due caution, since its loans will be on a non-marginal basis, and will also not permit political considerations to enter the picture (the Agreement provides that only economic considerations shall be relevant to decisions of the Bank).

One of the more vital protective features of the Articles of Agreement is that the Bank must not make loans, other than in exceptional circumstances, in the currency of the borrower. Thus, for example, if X member country seeks a loan from the Bank to construct an electric power plant, the Bank would provide funds for all the necessary materials which were to be purchased outside the borrowers own borders. The Bank itself would in no way stipulate where the purchases would be made, but the borrower would be required to specify in the loan contract the currency or currencies in which payments would be made.

Creditor's Veto Power

Reverting to the other side of such a transaction for the moment, the country whose currency was to be loaned would have veto power, directly or indirectly over the loan. This protection is particularly important with respect to the United States as the largest prospective lender, since it not only enables this country to pass upon dollar loans independently but also is an effective means of preventing the export of goods which might be in short supply. If a loan is to be made out of capital the United States has to authorize the use of the dollars and can directly control individual loans. If the loan is made from funds obtained from the sale of debentures, the United States can block their sale. Theoretically, if a series of loans is to be covered by a given debenture issue, the United States has no direct means of blocking any single loan. As a practical matter, however, no substantial loans seem possible if the United States is vigorously opposed thereto.

Primarily the loans made by the Bank must be for productive purposes and for a specific project. The Articles of Agreement permit other types of loans only "under exceptional circumstances."

Furthermore, before the loan can be made, a written report must be submitted by a competent committee recommending the project after careful study of the merits of the proposal. Such committees shall include an expert selected by the Governor representing the member in whose territory the project is located and one or more members of the technical staff of the Bank. Thus, not only must the top management of the Bank qualify on the basis of broad banking experience, but the Bank will be equipped with a highly skilled technical staff. After the loan has been approved by the committee, the Bank itself must pay due regard to the prospects that the borrower will be in a position to meet its obligations under the loan. Once a loan has been granted the Bank acts in much the same manner as a trustee since the borrower shall be permitted to draw down from a speciul fund, set up to the credit of the borrower, only the amounts needed to meet expenses in connection with the project as they are actually incurred.

These provisions should effectively prevent the making of indiscriminate loans and a sudden large drain on the dollar resources of the Bank, if nothing else.

The Executive Directors of the Bank have agreed that the Articles of Agreement permit the Bank to make long-term stabilization loans for the reconstruction of montary systems. Since international monetary stability is a prerequisite if the Bank is to function successfully, exception cannot be taken to this provision. Furthermore, as noted above, the World Bank is tied directly to the International Monetary Fund and any member of the Bank that ceases to be a member of the Fund shall automatically cease to be a member of the Bank. Nevertheless, the power to make such loans will have to be used with extreme discretion and the Directors of the Bank may at times find it difficult to avoid action that will have political consequences. Thus, for example, it would be a violation of the Articles of Agreement if the Bank for political reasons were to support the currency of a country where the policies of a new regime were causing an exodus of freightened private capital. Moreover, in the Monetary Fund Agreement there is a stipulation for the withholding of funds from countries where capital flight is in progress. One can see, however, that considerable pressure might be applied to cause the Bank to make just such a loan. Too much emphasis should not, however, be placed on loans of this character since, in any event, investors would not be likely to consider them as suitable security against which debentures of the Bank could properly be issued on a large scale, and one is warranted in assuming that any such loans probably would be limited to the 20% operating capital of the Bank.

The Departure From Policy After First World War

The above is sufficient to indicate that there is a vast difference between the concept of the World Bank and the type of foreign lending that was made after World war I. The World Bank is designed to be a continuing institution and the intent is not to pour out a vast flood of United States dollars. An additional source of strength lies in the fact that loans will be made to different member countries, in different currencies, over a period of years and with provision for staggered amortization payments. Most certainly, in the early years at least, any borrower will do its utmost to meet its obligations to the Bank, since otherwise additional credits would be denied. Morover, unwillingness to pay frequently has its roots in inability to pay, and if the Bank gives due weight to this latter factor—as it is required to do—defaults are not a foregone conclusion. A further difference between the lending principles of the World Bank and any international lending heretofore attempted is that foreign lending will be done by a group of countries rather than by the United States unilaterally. Accordingly, any defaults will be against the members of the Bank jointly and severally to the extent of their capital subscription and not against the United States alone. The burden of collecting the debts will likewise not rest entirely upon the United States and other members of the Bank will at least be required to share losses with the United States to the extent of their paid up capital subscriptions.

Probable Defaults

Despite the many sound and conservative features in the Articles of Agreement, and regardless of the ability of the management of the Bank, it seems inevitable that defaults will occur. This is particularly true since the Bank is denied the very cream of international lending and its loans will be essentially without any margin of protection. Thus, even though the borrower contributed towards construction costs of a project, the Bank would have no direct lien on the project itself. A considerable degree of protection will be afforded by the fact that loan maturities will be spread over a period of years and there can be a collateral staggering of the Bank's own obligations. When a large borrower fails to meet its carrying charges, and appears unlikely to be able to do so within a reasonable time, the Bank, within certain limits, may retire a corresponding amount of debentures, thereby reducing its own charges. Following through this procedure, it will be seen that the Bank would thereby automatically freeze that portion of its capital, since unpaid capital subscriptions would be called for, to the amount required, in the currency involved—presumably dollars—to meet the required principal amount of debentures. If subsequently the loan were restored to good standing, or liquidated, the procedure could be reversed.

The Special Reserve

As protection against moderate losses, provision is made for the accumulation of a special reserve by a charge of 1 to 1½% commission annually on outstanding loans. This reserve must be held in liquid form for the meeting of charges on the Bank's own obligations. In addition to the commission the Bank can charge a higher rate of interest than it pays. Assuming that the Bank over a period of time pays an average rate of interest of 3%, and charges an average rate of 3¼%, and the commission is 1%, the operating margin would be 1¼%. The Bank is completely immune from taxation. Initial operating expenses are estimated by the Bank at $1,200,000, but it is anticipated that as the Bank's operations expand this will be increased. Over a ten-year period the Bank should be able to accumulate a very substantial reserve.

A Pro-Forma Balance Sheet

The prospective future financial condition of the Bank can be projected; although there is a danger of oversimplification, since the Bank's balance sheet will by no means tell the whole story. The following statement (not original with this author but from an excellent source) may be of help in visualizing where the Bank may stand some ten years from now.

(In billions of dollars)

ASSETS

Cash and short-term securities		1.1
Gold and U. S. dollars	0.4	
Other currencies	0.7	
Loans, incl. gtd. loans		8.5
Special reserve (prime securities)		0.5
Uncalled subscribed capital (80%)		6.4
U. S.	2.54	
Other	3.86	
		16.5

LIABILITIES AND CAPITAL ACCOUNTS

Debentures and other obligations	8.0
Special reserve	0.5
Capital	8.0
	16.5

Illusion About U S. Responsibility

Unless one accepts the premise that there will be a complete breakdown of international transactions, the assumption frequently made that the only real security behind the debentures will be the capital subscription of the United States is false.

Simultaneous, 100% default on all loans is unthinkable. However, at some point several members may be in default on their loans as to both interest and principal, in which case it would be necessary for the Bank to call upon the 80% balance due on subscriptions, to the extent necessary to meet its own obligations. In any given year, however, one would not anticipate that over $1 billion of the Bank's own debentures would mature. That is probably extreme, since the Bank will presumably stagger its maturities or issue long term bonds with provisions for amortization, so that principal requirements would probably not exceed $500 million within any 12-month period. Assuming, however, a two year depression in which the Bank had to meet $1 billion of principal requirements, it will be observed from the above table that one-half the amount could be met from reserves set up for the purpose. The remaining half could be met by a call of less than 10% of unpaid subscriptions. Of this amount $254 million would be required from the United States and the balance divided among all other members. Certain members would not be able to meet their obligations in addition to the members in default on loans. The unpaid balance would then become an obligation of all the rest. As it happens, the debt record of other members of the Bank is fully equal to that of the United States. Canada, with a capital subscription to the Bank of $325 million, enjoys the best of credit rating and will continue to do so if it is humanly possible. The sterling group, composed of the United Kingdom, India, Union of South Africa and Egypt, have never defaulted on any publicly held obligations, either external or internal. Several European members of the Bank have a comparable record. Until this record is broken, these countries should be treated as being willing to meet their share of any likely call by the Bank.

Delicate Situation With China

The most delicate problem with which the Bank may find itself faced is in handling application for loans from its third largest member, China. China can logically be expected to be one of the largest borrowers from the Bank. Without wishing to prejudice the case, it seems unlikely that any substantial loans can be made to China until the civil war in that country is over and a reasonable measure of political stability restored. One may hazard a guess that the initial loan to China will be in the nature of a currency stabilization loan. While it is possible to be unduly optimistic, it is at least conceivable that the International Monetary Fund and the World Bank may become the most important factor in bringing to China a sound monetary system, thereby permitting that country to attract the investment of vitally needed capital. Obviously the government of that country will have to be a type conducive to such a result.

Russia's Status

Russia is not now a member of the World Bank and it is accordingly pointless at this time to discuss what effect its participation would have should it eventually join. However, because of the essential differences between the economic system of that country and the rest of the members of the World Bank, it is difficult to see how Russia could effectively function as a member in the light of the avowed objectives of the Bank.

The operations of the World Bank will be a matter of concern not only to prospective holders of its obligations but to the taxpayers in the United States as well. For the benefit of both, it will be vital for the Bank to make full and complete disclosures regarding each and every loan of any consequence. While there has been some opposition to the debentures coming under the jurisdiction of the Securities and Exchange Commission, this requirement may prove to be a blessing in disguise in respect to the release of pertinent information. This should not be interpreted as implying that the Bank would deliberately withhold important facts, but it must be admitted that there is a tendency on the part of governmental agencies, particularly those active in foreign affairs, to release a minimum of information. In the case of the World Bank, it is obvious that its balance sheet and operating statement alone will not be sufficiently indicative of the investment calibre of its obligations beyond a certain point. In other words, the prudent investor will wish to judge for himself as to the calibre of the loans of the Bank.

Bank Obligations and Legal Lists

The Bank's obligations have been made legal for savings banks and trust funds in New York and will presumably be made legal for various purposes in other states. They will be legal for commercial banks in limited amounts. To date the Bank's publicity has been extremely weak. The resignation of Mr. Eugene Meyer of the United States who was elected President of the World Bank last June has been a further disturbing factor, as has been the failure to find an acceptable substitute up to this time. Thus to date the way has been paved none too well for the first offering of the Bank's debentures. Initially it is expected that the Bank will test the market with a relatively small issue at an attractive price. Such an issue will find ready acceptance, but the real test will come later.

Summary of Favorable and Unfavorable Factors

In conclusion it may prove useful to summarize what seem to be the favorable factors and those less favorable. On the favorable side there are: (1) the avowed purpose of the Bank is to make loans for productive purposes; (2) all loans must be recommended by a competent committee; (3) the Bank must give due regard to the ability of the borrower to pay; (4) the Bank's policies must be based entirely on economic considerations; (5) the United States has veto power over all dollar loans; (6) the credit record of countries mentioned is excellent; (7) staggering of loans and the Bank's own obligations can prelude the danger of heavy capital calls at any given time; (8) the capital subscription of the United States will give 42% protection to debentures with maximum indicated loans.

On the unfavorable side one finds: (1) possibility of political pressure; (2) numerous loopholes for unsound loans "under exceptional circumstances"; (3) possible abuse of the power to make stabilization loans; (4) the Bank is deprived of the cream of foreign loans and chance of defaults thereby enhanced; (5) the unsettled question as to the Bank's management and the poor publicity to date; (6) possibility that adequate information will not be made available until too late.

Regarding this material from the standpoint of the usual security "analysis," the opinion is ventured—most humbly you may be sure—that the favorable factors outweigh the unfavorable by a wide margin. This opinion is, however, rendered "subject to change without notice."

Fallacies of Fixed Yields on Government Securities

(Continued from page 592)

The Burden of Interest Charges On the Debt

One of the main arguments for the maintenance of the wartime rate policy concerns the carrying charges on the debt. It is said that higher rates would impose a heavy burden on the Treasury's budget and upon the economy as a whole.[2] The available evidence is not convincing that an increase in the annual charges on the debt as might result from the removal of ceilings or interest rates would prove intolerable.

Interest charges on the debt are burdensome in several respects: (1) effort is involved in the collection of taxes and in the payment of interest and the keeping of records; (2) one class may gain at the expense of another since bondholders and taxpayers are not identical; and (3) national income may be adversely affected.

Advocates of cheap money and of deficit spending have argued on both sides of this question. Those who preached the "we owe it to ourselves" doctrine held that the debt was not burdensome because the payment of interest from taxes represented merely a transfer of money from one pocket to another. Obviously, if taxes were levied in proportion to bondholdings, so that in each and every case the tax cleared perfectly against the interest, the rate of interest on the government's debt would be irrelevant. A 20% rate would be no more burdensome than a 2% rate. Moreover, if taxes to collect interest were based upon bondholdings there would be no incentive for investors to hold government obligations. Consequently, the government would be forced to dispense with the fiction of borrowing and to redeem outstanding debt with new money. To tax existing debt on this basis seems out of the question in a capitalistic system based on privately owned wealth. Since taxes are not based upon bondholdings, the payment of interest involves a transfer from taxpayer to bondholder and the debt is burdensome to the taxpayer.

The payment of interest is also said to be a burden upon the economy as a whole. Because taxes reduce total income by more than the payment of interest increases total income, a "net leakage" results in "slowing down" of total income. Although Federal personal income taxes are progressive, interest on balance is paid to nonconsuming sectors of the economy because of the concentration of debt holdings among institutions and high income receivers. Wallich has estimated the "net leakage" involved in paying $5.7 billion annual interest on a $310 billion debt at $0.9 billion.[3]

The "leakage" does not seem to be as great as generally supposed. With a more highly progressive tax system combined with a less concentrated ownership of the debt, the burden as measured by leakage conceivably might disappear. On the other hand a policy of financing the Treasury at artificially low rates of interest would make the calculated leakage greater than it would otherwise be since a larger proportion of the government's obligations would have to be sold to banks.

The reality of the leakage attributable to bank holdings is open to question. Wallich observed that holders of demand deposits derive a kind of negative income from the absence of service charges which the bank's income from government securities makes possible.[4] Similarly Hansen and Greer maintained that the debt is in reality very widely distributed even though held so largely by institutions. Tax paying and income receiving groups, they said, indirectly become identical because of the services the public receives from these institutions.[5] More recently Hansen has asserted that debt held by the banking system "is burdenless on the community as a whole in the sense that the cost of bank services must be covered somehow or other."[6]

Excessive Bank Earnings

A second argument holds that a rise in yields on government securities would redound to the benefit of the banks by further increasing their already excessive earnings.

If excessive bank earnings should result from a rise in yields, there are various *ad hoc* means of correction, chief of which is taxation. In any case bank earnings are not a proper criterion of monetary policy and the problem if it arises should not be solved by that means.

Bank earnings do not appear to have been excessive in comparison with the earnings of other enterprises nor in relation to bank capital requirements.

A comparison of the absolute rise in net profits of the banks with the rise in net profits of all corporations of the ten year period, 1935 to 1945 does not reveal extraordinary gains by the banks.[7]

A comparison of the rates of return on net worth of banks with non-banking corporations does not show that banks enjoyed exceptional earning power except in 1944 and 1945.[8]

The effect of a rise in yields of government obligations upon future bank earnings can not be foretold with certainty. On the assumption that the present volume of earning assets of the banks remains unchanged, or is allowed to increase, a higher rate of return on those assets obviously would result in larger gross earnings. Whether the current rate of net profits can be maintained will depend on many factors including the volume of earnings assets,[9] which, in turn, is influenced by the credit policy of the Reserve System and the Treasury's policy in the retirement of the debt, as well as bank costs, wages, service charges, etc.[10]

The inadequacy of bank capital has been described as "a plausible, spurious apology for excessive bank earnings."[11] The belief that the capital of the banking system is adequate is based on the "riskless nature" and "ultimate soundness" of Government obligations. This presupposes that the present policies of guaranteeing the prices of Government securities is continued and ignores the possibility that in peace times bank assets may consist more largely of private rather than Government debts representing risk transactions.

The growth in bank capital since 1934 has been barely sufficient to maintain the ratio of capital to total assets other than cash and Government securities. This growth has resulted almost entirely from the retention of earnings. Virtually no new capital has been raised through the sale of stock. It is by no means clear why new capital has not been attracted, but one factor has been the failure of market values of bank stocks to respond to the increased earning power of the banks. Market values of bank stocks appear to have risen in keeping with the growth in equity resulting from the retention of earnings, but, rightly or wrongly, have failed to give further weight to actual or prospective earnings.[12]

The advocates of low yields on Government securities are perhaps less concerned with the excessiveness of bank earnings as such than with the fact that a large part of bank earnings is derived from Government securities. According to Seligman, "the crux of the problem is just how much the Government should contribute to the income of the commercial banks via interest payments or otherwise."[13]

The position of the cheap money school seems to be that the present "contribution" is certainly too large in relation to services rendered and, perhaps, ought to be eliminated entirely. This general viewpoint has been defended on the grounds that (1) the Government already has access to whatever means of production it requires through the tax power and the power of the printing presses,[14] (2) the issue of money is a Government and not a private function, and (3) in acquiring obligations of the Government in exchange for their own banks perform a costless operation and can hardly be said to provide credit of a higher quality than that which they receive.[15]

Point one of the preceding argument would apply equally well to other holders of Government debt, i.e., to insurance companies, savings banks, or individuals. The fact is that the Government did not tax more heavily when it could have done so and, moreover, it was not authorized by Congress to use the printing press nor to sell its obligations directly to the Federal Reserve Banks except to a limited extent.

The question raised by point two is not whether banks are entitled to receive interest on Government securities, but whether private banks should be allowed to engage at all in the money issue function, i.e., whether the granting of deposit credit against loans and investments should be abolished. The question in point three involves the basis on which banks should be allowed to grant deposit credits.

The complete divorce of the granting of deposit credit from the lending and investing activities of the banks has been advocated for many years. Fisher and earlier writers desired this not because of excessive bank earnings, but because it was desired to control variations in the supply of money. Some of the more recent advocates of high reserve requirements appear to object merely to the granting of deposit credit on the basis of Government as opposed to private obligations on the ground that banks are not entitled to interest income since they do not provide credit of a higher quality than that which they receive. The strength of this argument depends upon the assumption that the Reserves System will continue to guarantee the prices of Government securities. It is only on this condition that Government obligations become equivalent to money as tender and, consequently, involve no risk of loss to the holders. Moreover, it implies that there is no cost connected with the deposit accounts which have been "created."

If the prices of Government obligations are guaranteed by the Reserve System the case for high or 100% reserve requirements is greatly strengthened, not because bank deposits are costlier creations but because the reserve basis of bank credit is uncontrolled. To avoid indefinte expansion of bank credit it becomes necessary to limit the discretionary investment activities of banks. The argument for divorcing these functions however relates to control of the money supply and not to bank earnings.

A very high or 100% reserve requirement would limit the loans and investments of banks to the amount of their capital and earned surplus. Banks could not continue to perform their present lending functions if they were made to depend solely on their own capital and surplus. Are the present commercial lending functions of banks desirable or necessary? A number of writers consider these functions obsolete in view of the decline in the relative importance of commercial loans and the alterations which have taken place in the basis of bank credit.[16] However, the absolute amount of bank loans has not altered very greatly and banks are still today the chief suppliers of commercial and industrial customer-loan credit. Despite the large volume of accumulated liquid assets held by corporations and their ability to finance themselves from internal sources they still rely upon bank financing. In the past year business firms increased their bank debts by several billion dollars even though they also obtained several billion additional dollars from the sale of Government securities. The other institutional lenders and the securities markets are not equipped to handle the kind of customer-loan credit which is the specialty of the commercial bankers. Competition for private loans exists among the various lenders, but it is mainly in the case of large borrowers of high credit standing and in the fields of intermediate and long-term credit for fixed capital purposes that the lending activities overlap. In the short-term working capital loan field, particularly in the case of customer-loans to medium and small firms, other lending institutions have not been able to compete.

The essence of modern commercial banking lies in the inseparable combination of the lending function with the money function. If these functions are to be separated and commercial banks forced to confine loans to their own capital and surplus, the costs of present day banking services can not be covered. To impose service charges upon deposits to cover these costs would have regressive effects and would shift the cost from the taxpayer to the user of bank deposits probably with no social gain.[17] Con-

(Continued on page 620)

2 See Board of Governors of the Federal Reserve System, *Annual Report*, 1945, pp. 4-5 and Marriner S. Eccles, "Eonomic Conditions and Public Policy" address before the Sixteenth New England Bank Management Conference of New England Council in Boston, Oct. 25, 1946, reprinted in the *Federal Reserve Bulletin*, November 1946. See also *Annual Report* of the Secretary of the Treasury for fiscal year ended June 30, 1944, pp. 6-8.

3 Henry C. Wallich, "Public Debt and Income Flow," *Postwar Economic Studies*, No. 3, December, 1945, Board of Governors of the Federal Reserve System, pp. 84-100. The calculation assumes that taxes are greater than otherwise by the amount of interest to be paid on the debt. Payment of interest is relatively burdensome only if such expenditures support consumption to a lesser extent than other kinds of Government expenditure.

4 *Ibid.*—p. 91, n. 8.

5 Alvin Hansen and Guy Greer, "Toward Full Use of Our Resources," *Fortune Magazine*, November, 1942.

6 Alvin Hansen, "A Symposium on Fiscal and Monetary Policy," *The Review of Economic Statistics*, May, 1946, p. 71.

7 Harris also found that for the years 1939-43 "in general, banking has not been so profitable as most business enterprises," although he observed that "there are many reasons why their gains should be kept down and possibly even more than they have." See Seymour E. Harris, "A One Per Cent War?" *American Economic Review*, September, 1945, pp. 668-69.

8 For insured commercial banks the rate of net profits to total capital accounts was as follows: 1941, 6.73; 1942, 6.34; 1943, 8.82; 1944, 9.73 and 1945, 10.87. In 1945 the rate reached an all time high but preliminary information for 1946 indicates a levelling off in the rate of return.

9 In the past two conflicting forces have been at work. The earning assets of the banks (mainly government obligations) tended to increase relative to capital funds but at the same time the yields on earning assets relative to total assets fell. Net current earnings after taxes as a per cent of total assets declined every year from 1937 to 1945. This was because the rate of return per unit of assets was dependent in part upon the total volume of assets since the volume of bank assets is an important determinant of the supply of money which in turn affects yields.

10 For an analysis of some of the conflicting forces at work see Federal Reserve Bank of New York, *Thirty-first Annual Report for the year ended Dec. 31, 1945*, pp. 21-23. See also Bankers Trust Company, "Outlook for Bank Earnings, 1946-1948," Sept. 3, 1946.

11 Henry C. Simons, "Debt Policy and Banking Policy," *The Review of Economic Statistics*, May, 1946, p. 87.

12 One would suppose that if actual or prospective earnings were excessive bank shares would sell well above book values. Not only did bank shares fail to participate in the last two stages of the general bull market which culminated in May, 1946, but they failed to rise above book value. The surprising thing is that during the War years when the rate of return on bank capital was rising the ratio of stock prices to book values for 13 New York City banks was at or less than 1.00 whereas during the pre-war years, 1934-1940, this ratio was below book value in only one year, 1938, when the ratio was 0.93, and ranged as high as 1.42 in 1936. See Standard and Poor's Corporation, *Industry Surveys*, "Banks," Vol. 114, Pt. I, No. 96, Sec. 1, Nov. 29, 1946, p. B2-2. Weighted average ratios of bank stock prices to book values, based on high and low prices are charted in "Banks," Vol. 113, No. 3, Sec. 1, April 11, 1945, and Vol. 114, No. 96, Sec. 2, April 24, 1946.

13 Harold L. Seligman, "The Problem of Excessive Commercial Bank Earnings," *The Quarterly Journal of Economics*, May, 1946, p 369.

14 *Ibid.*, pp. 369 and 374.

15 C. R. Whittlesey, "Problems of the Domestic Monetary and Banking System," *American Economic Review*, Vol. XXIV, No. 1, Pt. 2, March, 1944, p. 251; see also Lawrence Seltzer "The Changed Environment of Monetary-Banking Policy," *Papers and Proceedings of the American Economic Association*, Fifty-eighth Annual Meeting, Cleveland, Ohio, Jan. 24-27, 1946, p. 75.

16 e.g. Among many others, Henry C. Simons, "Debt Policy and Banking Policy," *The Review of Economic Statistics*, May, 1946, p. 88.

17 On this point Hansen, Seligman, and Poindexter seem to be in substantial agreement. See Alvin H. Hansen, "A Symposium on Fiscal and Monetary Policy," *Review of Economic Statistics*, May, 1946, p. 71; Harold L. Seligman, "The Problem of Excessive Commercial Bank Earnings," *Quarterly Journal of Economics*, May, 1946, p. 376; J. Carl Poindexter, "A Critique of Functional Finance Through Quasi-Free Bank Credit," *American Economic Review*, June, 1946, pp. 314-15. On the other hand Simons maintained that the services of "warehousing and transfering private funds" should be paid by "appropriate" service charges, that banking services should not be free only to persons with large balances. See Henry C. Simons, "Debt Policy and Banking," *The Review of Economic Statistics*, May, 1946, p. 88.

Fallacies of Fixed Yields on Government Securities

(Continued from page 619)

sequently, if these services are desirable no clear advantage is to be served through basic alteration of the present arrangements whereby their cost is partly or even mainly covered by interest payments on the debt. If the income which results from the Government's policy of financing through the banking system is regarded as excessive, the simple solution is to tax these earnings, restore the payment of interest on deposits, or require the banks to reduce present service charges.

It will probably turn out that "excessive" earnings will be paid away to cover rising costs, particularly wages.

Losses Resulting From Rising Rates of Interest

Maintenance of the wartime pattern of rates is also defended on the ground that higher rates would reflect depreciation in the market value of outstanding Government securities. The fear is expressed that, if the price declines were sharp, public confidence in the solvency of banks and other financial institutions and possibly in the Government credit itself might be shaken.[18] A related consideration is the difficulty that would be faced by the Treasury in refunding maturing securities.[19] These arguments are difficult to reconcile with the contention already discussed, that higher rates would enrich the banks. It is difficult to see how this enrichment could occur if higher rates also forced banks to take heavy losses on their securities and if banks were unwilling to reinvest maturing funds in the new Treasury issues.

The extent to which various investors in Government securities will be harmed by book or actual losses arising from price declines in Government securities depends (1) on the extent of the rise in rates and (2) upon the circumstances which govern the investment program of each investor.

Although under present conditions the withdrawal of Reserve Bank support would probably be followed by a rise in yields on Government securities, it is not to be expected that rates would rise to inordinate heights. The extent of the rise would depend upon many factors including the opportunities for alternative employment of funds, the current rate of money savings, and the management of the debt apart from direct price support by the Reserve System.

In individual cases the losses in asset values resulting from rising rates would depend not only upon *the necessities* of each investor with respect to the amount and timing of outpayments in relationship to inpayments, but also upon the discretionary actions of each investor in the management of his resources.

The small investor appears to be adequately protected by the cash redemption feature attached to E, F and G bonds. The nature of the contractural liabilities of insurance companies enables them to predict with accuracy their probable rate of outpayments, and consequently, to plan their investment portfolios in such a way as to avoid *the necessity* of having to sell securities prior to maturity. Individual commercial banks are more vulnerable than other investors because their liabilities are payable on demand and because deposits often shift from one bank to another or from one area to another, and, consequently, may force the sale of securities unexpectedly.

For the banking system as a whole Samuelson has argued that losses would not arise from a rise interest rates since the banking system is a going concern which remains invested and which is unlikely to lose deposits, i.e., to suffer a rate of outpayments which exceeds the rate of inpayments, barring a general demand for currency or a forced contraction in total bank credit.[20] This argument implies that the banking system is an enclosed and consolidated whole, a single giant bank which is able continuously to reinvest maturing securities at higher rates and thereby more than compensate in the course of time, the depreciation in book values of old investments.

This proposition does not hold true for a banking system composed of 15,000 separate independent units among which clearance is far from perfect. The individual bank is unable to estimate with much certainty the timing or probable amount of deposit withdrawals either seasonally or cyclically and, consequently, may have to sell securities before maturity and probably at less than cost in a period of rising interest rates. Moreover, the individual bank is compelled to observe conventional accounting practices in the treatment of book losses. Fortunately, the average maturity of bank portfolios is relatively short, about four to five years, and therefore, losses attributable to a change in interest rates would be limited.

The fears of potential losses to be suffered by debt holders from a rise in yields no Government securities seem to have been exaggerated. The losses would be greatest in the case of the speculative holders and in the case of those institutions which manage their investment portfolios without regard to the probable amount and timing of outpayments and which, in attempting to maximize current income, have overinvested on the assumption rates would not rise. Wholesale liquidation of Government securities with consequent sudden and sharp depreciation in values will not eventuate unless induced by inflationary developments. To avoid this outcome continued market support of Government securities through creation of money should be abandoned in periods of active business and full employment and the rate structure should be made to depend for its support upon intelligent management of the budget and the debt.

Ineffectiveness of Higher Rates of Interest

The removal of ceilings from yields on Government securities has been opposed because higher rates would not prove effective in combating inflation. Essentially the argument is that the rate of interest has only a limited area of influence. Since it is a minor element in cost calculations it is not believed to exert much influence on investment or savings. Assuming this to be so it does not necessarily follow that a policy of freezing rates is desirable. A policy of freezing rates is objectionable not because higher rates are effective against inflation, but rather because the maintenance of low rates requires further expansion in the supply of money. To maintain arbitrarily low rates requires that the supply of money increase automatically in response to pressure on the adopted rate pattern and increase regardless of the conditions that give rise to that pressure. The implications of this are discussed in the following section.

Implications of Maintaining the Wartime Pattern of Yields on Government Securities

The wartime pattern of yields on Government securities is an unsatisfactory criterion of central bank policy because it removes all limits upon the availability of bank reserves and renders the central bank powerless to control the supply of deposits. It, therefore, leads to the adoption of high reserve requirements, to the undermining of the loan functions of the commercial banks, and ultimately to the imposition of selective controls over all types of lenders.

The present type of rate structure came into being during the 1930's when excess reserves of the banks were very large and when the Government was relying heavily upon bank borrowing. The marked disparity between short-term and long-term rates would not have come about if it had not been for the bank demand and the fact that the maturity of bank purchases was shorter than the maturity of the supply of marketable debt. The maintenance of this maturity pattern of yields is dependent upon the continued absorption of Government securities by the commercial banks or by the Federal Reserve Banks, i.e., upon the continued expansion in the supply of money.

A curve in which yields ascend with maturity carries with it the implication that rates will rise. It is illogical to select such a curve for freezing. If the market is generally convinced that this structure will be maintained, maturity becomes a matter of indifference and, consequently, investors will purchase the longer maturities which afford the higher yields. Forces are set in motion which would produce a more horizontal curve if this were not prevented by the absorption of short-term securities by the Reserve Banks.[21]

The Government securities held by commercial banks are considered by many persons to be inflationary because they can be exchanged for reserves. Government securities are therefore regarded as "excessive" reserves which afford the basis for a potential expansion of bank deposits.[22] Because of this it is proposed to raise reserve requirements or to impose special reserve requirements in the belief that these devices would prevent further expansion of bank deposits. Such measures can not prevent deposit expansion if the rates are pegged at low levels. The need for such measures rests not upon the mere circumstance that the banks hold large amounts of Government securities but upon Reserve Bank purchases of Government securities at guaranteed prices, i.e., upon the maintenance of the rate policy. The sale of Government securities now held by commercial banks for the purpose of making new loans or investments will inflate total bank deposits only if the securities are purchased by the Reserve Banks. This will not happen if the securities are sold to non-bank buyers.

Even if higher reserve requirements are imposed, the Reserve Banks can not prevent an expansion of commercial bank deposits if rates are pegged in the face of a widespread demand for funds. If because of higher reserve requirements commercial banks are prevented from making additional loans and investments, non-commercial bank holders of the debt may be induced to sell securities to meet the demand for funds. The Reserve Banks must purchase these securities to maintain rates. No power over reserve requirements can prevent a rise in commercial bank deposits which results from Reserve Bank purchases of Government securities. Recent proposed versions of the 100% reserve plan[23] could prevent the supply of money from expanding in response to the discretionary lending and investing activities of commercial banks but could not prevent deposits from expanding in response to growth in total reserves. If rates are pegged high reserve requirements merely alter the basis on which deposits expand, but do not insure that the deposit expansion will be any less than it would be without high reserve requirements in a free money market.

It is difficult to reconcile the view of the Reserve Board Chairman that the debt is a demand liability and, consequently, that rates must be maintained, with the Board's view that a rise in total deposits should be prevented. However, some writers attach no importance to the fact that freezing of rates requires a rise in the quantity of money. They imply that further increases in the supply of money will merely be held voluntarily by individuals in lieu of Government securities as, it has often been observed, was the case during the War years. They further imply that the quantity of new money would not exceed the amount needed to satisfy the liquidity desires of the public and would have no effect upon the demand for private securities, for capital goods, or for consumer goods.

The fact that rates are frozen may decrease the proportion of money needed to satisfy liquidity desires with the result that excessive money holdings may be spent. The *ex-post* equivalence of savings (as measured by the difference between disposable incomes and consumer expenditures) to money plus Government securities plus private debts and equities of individuals gives no clue to the functional relationship of the quantity of money to the other factors in the equation. This equation would be satisfied at any level of total expenditures and regardless of the proportion of savings in the form of money, the prices of securities, or the level of commodity prices.

Under conditions of full employment the maintenance of a fixed pattern of rates becomes essentially a device by which an increase in private investment expenditures plus Government expenditures is financed by the creation of money. The method by which aggregate expenditure is financed is of importance because it may affect total incomes and total expenditures.

Generally speaking if expenditures are financed by the banking system, i.e., by the creation of money, total incomes will rise by a greater amount than if expenditures were financed by borrowing or by taxation since the new money represents a net addition to total income payments. Money creation does not involve offsetting effects upon total income that may accompany taxation or borrowing from non-banking sources. In a depression money creation may be a desirable method of stimulating a rise in national income but it can hardly be so regarded once physical and human resources are fully employed if its main effect is to inflate prices.

Where expenditures are financed by money creation, the only quantitative control possible is over the timing and amount of expenditures. The advocates of freezing rates on Government securities, or of further reducing those rates have not, however, offered any clear cut criteria for controlling expenditures. The inference is that Government net cash expenditures, or surplus, would be made to vary in such a way as, on the one hand to promote full employment, and, on the other hand, to prevent inflation of commodity prices.

The continuance of a policy of maintaining the wartime pattern of yields therefore raises the question whether we can rely upon fiscal controls over the volume of money in place of the former quantitative controls of the central bank. At this stage of development fiscal controls do not appear to offer the necessary flexibility and probably would not afford this flexibility without the grant of autonomous powers to the Treasury. Disagreement is widespread regarding the timing and the proper technique of controlling Government cash expenditures (or surplus)—whether by varying taxes or by varying expenditures or by both. Moreover, there is little agreement upon debt management and as yet relatively little attention has been given to the technique of employing Government cash surpulses in the retirement of debt, a device which might be used if Government hoarding of cash is to be avoided.

The policy of maintaining the wartime pattern of rates does not in itself afford any solution to the problem of monetary control even though bank reserve requirements are raised to high levels. On the contrary, this policy merely involves the surrender of existing central bank control and forces still greater reliance upon fiscal controls, which are necessary in any event.

18 Woodlief Thomas, "Postwar Monetary Problems and Policies," paper presented at the Inter-American Conference of Central Bank Experts, Mexico City, Mexico, Aug. 15-30, 1946.

19 Woodlief Thomas, *op. cit.*, p. 9 and Marriner Eccles, "Economic Conditions and Public Policy," address before the Sixteenth New England Bank Management Conference of the New England Council in Boston, Oct. 25. 1945, reprinted in *Federal Reserve Bulletin* Nov., 1946, pp. 1231-32.

20 Paul A. Samuelson, "The Effect of Interest Rate Increases on the Banking System," *American Economic Review*, March, 1945, pp. 16-27.

21 Once rates are frozen gratuitous profits are certain to be realized from "riding the curve." These profits can be realized because the prices of Government securities move to a lower yield basis and rise in price as the period of their life to maturity becomes shorter.

22 Board of Governors of the Federal Reserve System, *Annual Report* for the year 1945, page 4; Committee for Economic Development, *"Jobs and Markets,"* Chapter VI, Jan. 4, 1946; Henry C. Simsons, "Debt Policy and Banking Policy," *The Review of Economic Statistics*, May, 1946, p. 86.

23 Board of Governors of the Federal Reserve System, *Annual Report*, 1945, p. 8; Lawrence Seltzer, "The Changed Environment of Monetary Banking Policy," *Papers and Proceedings of the American Economic Association*, Cleveland, Ohio, Jan. 27, 1946; Committee for Economic Development, "Jobs and Markets," Jan. 4, 1946; Simeon E. Leland, "The Government, the Banks and the National Debt," *Commercial and Financial Chronicle*, Vol. 163, No. 4456, Sec. 1, Jan. 17, 1946, p. 28 B-4.

McKendrew Pres. of Commodity Exchange

Edward L. McKendrew, Vice-President of Armand Schmoll, Inc., hide dealers, was elected President of Commodity Exchange, Inc. of New York on Jan. 23 at the organization meeting of the Exchange's newly-elected Board of Governors. He succeeds Philip B. Weld, partner of Harris, Upham & Co., who has served in the Presidency during the last four years. One of the founders of the New York Hide Exchange, in 1929, Mr. McKendrew was active in formation of Commodity Exchange in 1933, through consolidation of the Hide Exchange, New York Rubber, National Raw Silk and National Metals Exchanges. On the Board of Governors continuously since 1933, he was twice elected to the Presidency in 1941 and 1942.

Floyd Y. Keeler, partner of Orvis Bros. & Co., was re-elected Treasurer and four Vice-Presidents were elected to head groups within the membership, viz.: Richard F. Teichgraeber, Commisson House Group; Milton R. Katzenberg, Hide Trade Group; Martin H. Wehncke, Metals Trade Group and Paolino Gerli, Silk Trade Group. Six members of the Board of Governors were re-elected in the annual election and two new members, Albert A. Garthwaite, President, Lee Rubber & Tire Corp. and Spencer W. Frank, of May, Borg & Co.

A Federal Labor Court—Is It Needed?

(Continued from page 605)

sibilities have been imposed upon the owners and managers of properties which can be used either to serve or to exploit the public.

At the same time, the government has a duty to establish the ways and means for the peaceful and just settlement of economic conflicts of interest. If powerful combinations of labor and of capital are left entirely free to pursue self-interest, the result will not be a workable, competitive economy. The result will be a continuing warfare between gigantic private forces, out of which private gains will be small and temporary, and public losses will be large and irreparable. The civilized way to avoid such conflicts has always been to establish an administration of justice and to make it the duty of law-abiding citizens to use the peaceful means at their disposal for the eventual settlement of all serious disagreements.

Public Tribunal Better Than Compulsory Arbitration

It is a common misunderstanding that any compulsory arbitration of labor disputes must mean a political restraint upon the freedom employers and employees to establish their relations by a voluntary agreement. Of course labor relations should be established on the basis of voluntary agreement if that is possible. But when one party to a proposed bargain is permitted to coerce the other party into making an agreement to which he is bitterly opposed, there is in fact a compulsory arbitration by private force. Certainly the decision of an impartial public tribunal would provide a better form of compulsory arbitration than this.

Then there are many situations in which a stoppage of production or distribution will inflict such intolerable hardship upon a community that government in self-protection must end economic warfare and, by executive, judicial, or legislative action, decide the controversy. In these circumstances, the passage of an emergency law, or the dictatorial use of executive powers, is certainly a poor form of compulsory arbitration compared with the enforcement of a judicial decision founded upon a judicial hearing and a cool consideration of all public and private rights involved.

For centuries, the most important conflicts of interest in our society have been determined through processes of compulsory arbitration which are approved and exalted as the administration of justice.

And so, at the outset, let me say bluntly, that, so far as the plan of Judge Knox provides for the compulsory arbitration of labor disputes of public concern, it does not run counter to any principles which, in my judgment, must be adhered to in order to maintain the freedom of enterprise or the freedom of labor.

Classes of Labor Disputes Should Have Separate Consideration

There are, however, two classes of labor disputes which should be considered separately. One class consists of disputes over the interpretation and application of contracts, or disputes over the application or enforcement of a legal obligation. The law should provide for a judicial decision of such disputes.

There would be advantages in having at least a trial court established with a special and clearly defined jurisdiction to handle such labor cases. The law of its creation would then make labor organizations plainly suable and capable of being sued. It should provide also for the bringing of suits by public authority or by third parties when public or private injury will result from an unsettled dispute over the contractual or legal rights and obligations of employers and employees. There should be no more difficulty in establishing the principles and standards for making decisions, and the methods of enforcing decisions, in these labor cases than in a multitude of cases decided every day in the courts.

There is a second class of labor disputes which could not be as easily settled by a law requiring their submission to a labor court. Those are disputes which arise in the making or revision of a contract between management and labor or in dealing with the exercise of managerial controls in such matters as discipline or operating methods which often cannot be regulated by precise contractual obligations. Many of these disputes are of a minor character, and should not be made the subject of a petty lawsuit. A litigious person on either side could use such suits as a means of continually harassing and coercing the other party.

On the other hand, major disputes over what agreements should be made between management and labor are those most likely to result in strikes and lockouts. I will assume that the Federal Labor Court envisaged by Judge Knox would be given jurisdiction over, first, unsettled disputes involving the interpretation and application of contractual and legal obligations, and, second, unsettled disputes over the making or revision of agreements, but only when a failure to settle such disputes threatens a stoppage of production or distribution which is a matter of serious public concern.

Courts Should Be No Substitutes For Voluntary Agreements

If we are to preserve the value of collective bargaining procedures and voluntary agreements, the parties to a multitude of minor disputes which may affect interstate commerce should not be invited by law to transfer their responsibilities to a court and to substitute judicial decisions for voluntary agreements which might be reached if no other opportunity for peaceful settlement were available. A very human tendency to "pass the buck" in the making of difficult decisions would certainly incline many representatives of both labor and management to stick to a proposition completely satisfactory to their constituents and to evade the responsibility of making a compromise decision, if this responsibility could be transferred to a court. Furthermore, any such drastic limitation upon the powers of employer and employee representatives alike to fight out their differences, when no great public injury is likely to result, would be strongly opposed by prevailing opinion. The idea is still commonly held that persons possessing economic powers should be permitted to use them freely to advance their private interests, even when considerable damage is done to the public interest and to other private interests.

But, assuming that only major disputes would be presented to a federal labor court, two further questions arise:

Objections to Permanent Tribunal

First, would a permanent tribunal be preferable to the establishment of temporary boards of arbitration to deal with separate or related disputes One obstacle to the success of a permanent tribunal would be that it would almost inevitably incur the hostility of one party, if its decisions were usually satisfactory to the other, and be charged with deciding cases on the basis of the economic and social predilections of the judges instead of on the basis of established principles of economic justice. A labor court, by a succession of decisions, would probably become offensive to large numbers of both business managers and labor leaders and be subjected to political attacks which would destroy it if the general public manifested only a mild interest in its preservation.

It would also be difficult to make sure of the appointment to such a court of men of true impartiality and broad vision, without pronounced economic prejudices. There would be undoubtedly heavy political pressures and political campaigns waged to bring about the appointment of men who would at least lean to one side or the other, and whose ideas of the public interest might be based, on the one hand, largely on a desire to preserve a free economy and to protect capital investments or, on the other hand, largely on a desire to move toward a socialized economy for the supposed protection and promotion of the interests of the wage earners.

Difficulties in Applying Economic Principles

These considerations emphasize the importance of the second question which I would raise, and that is: How should the economic principles and standards be established which a labor court could apply and thus avoid making rather arbitrary decisions based apparently on varying and uncertain standards and arising out of the somewhat rough and formless ideas of economic justice which impressed the court in the consideration of particular cases?

The great difference between a judicial judgment in the ordinary civil or criminal case and the judgment sought in a labor dispute case lies in the fact that the courts of today enforce principles and standards laid down either in statutory law or in the course of the long development of the common law; and they are aided by volumes of judicial interpretations and applications of general principles and standards made in specific cases either by the courts alone or with the aid of administrative bodies. Thus the decision is given the weight of a judgment of society instead of being handed down as the judgment of one man.

But, in seeking to establish principles and standards for the decision of labor disputes of great public concern, we find that the wage-price-profit relationships are exceedingly complicated. It might be posisble to adopt standards of profit related to current returns expected from capital investments in accordance with the risks assumed by the investors. Then it might be possible to determine a total allowance for wages by deducting from gross revenues all material costs, a fixed return on capital, taxes, etc., and then to divide the remaining revenue among the workers as compensation for their contribution. But the mere statement of such a formula indicates the impossibility of its exact application. Prices in a free economy are supposed to be regulated by supply and effective demand and by the competition of other products for the consumer's dollar. Fair wages involve a determination of the monetary value of a worker's contribution, a consideration of his subsistence needs and of an existing and an attainable standard of living, and of customary differences in a just reward for skill, experience, education, and many, many other factors which defy exact determination. Furthermore, wages must be directly related to production methods, to the efficiency of employees, and to the hours of work.

It is my conclusion, without going too deeply into this difficult problem of ascertaining the standards for judicial decision of labor disputes, that, in a free economy such as we hope to preserve, all the elements of cost, price, and profit or compensation can only be determined with approximate fairness by free and fair competition. Thus, before any arbitration tribunal should be called upon to decide a labor dispute, there should be available prevailing standards which have been determined by the interrelated operation of competition and voluntary agreements.

Compulsory Arbitration Should Not Be the Rule

Let me repeat, as I have often said, that compulsory arbitration should be the exception and not the rule. When compulsory arbitration becomes the rule, there is no escape from the result of a planned economy—not a planned economy resulting from the planning of industrial managers, subject to restraints by organized labor and by government, but an economy directly planned by the government for the purpose of determining what products should be produced, by what methods, and what wages should be paid, and what capital returns permitted in order to carry out a social program. Such a social program in a socialized state would be ostensibly designed to serve the greatest good of the greatest number. But we have had convincing demonstration of the fact that a government-planned economy is a politically-planned economy designed to serve the interests of a political party in power. Such a government control of industry means a government control of the entire life of a people and the repression of individual liberty, and can only be maintained through the use of ruthless force by a ruling class who inevitably, according to human nature, will be guided by their own interests and by concepts of the public interest with which large fractions of the public will inevitably disagree!

Conclusions

And so it seems to me that, first, compulsory arbitration of labor disputes should be limited to those industries and those disputes wherein it can be clearly established that stoppages of production and distribution will menace public health or safety and be destructive of the general welfare. Those who engage in such industries, whether they are investors, managers, or employees, should understand that, if the scope of their operations is so great and monopolistic that the public becomes dependent upon them for the necessities of life, they must take the responsibility of either resolving their disagreements peacefully, while maintaining continuity of operations, or they must submit to a temporary fixing of the terms of their cooperation by impartial public authority. If such a doctrine was established, it would operate as a positive deterrent to industry-wide controls of production, prices, or wages by either management or labor. Under such a doctrine, both management and labor would be compelled to choose between restricting their activities so that they did not become a matter of public concern, or accepting the responsibilities which must be imposed by law on those who, having acquired the power to do a great wrong, cannot be left free to pursue self-interest without due regard for the interests of others. Under such a doctrine, neither management nor labor would be left free to maintain their disagreements to the point where their failure to agree would result in serious public injury.

Second, when it is necessary in exceptional cases to resort to the public decision of an industrial controversy, there should be a machinery for establishing a temporary judicial tribunal, commonly referred to as a board of arbitration, for the purpose of deciding the immediate case. If such a decision has unfortunate results and is subject to just criticism by either of the parties or by the public, there will be at least the assurance that when the next controversy arises calling for a compulsory settlement, a new tribunal will be created, thus keeping alive in all concerned the hope of eventual justice.

One of the great advantages of a jury trial is that litigants are not required to submit their controversies over and over again to a body which may be regarded as prejudiced or incompetent.

Let me venture one suggestion which has been inspired by the plan of Judge Knox, but for which he can disavow any responsibility. We might consider the establishment of a permanent judiciary, a member of which would be the presiding officer of any arbitration tribunal, but without vote. He would aid the arbitrators in the same way that a judge aids but does not participate in the deliberations or decisions of a jury. This would provide skilled men trained in the law to maintain orderly procedures and to see that the arbitration board stays within the limits of its jurisdiction and has properly presented for its consideration all the pertinent facts and arguments helpful to a decision.

This suggestion is advanced because I realize the value of a competent and permanent judiciary in the administration of justice. At the same time, I realize the difficulties in the way of establishing permanent courts for the settlement of economic controversies which involve in their most serious aspects, not the determination of what the rights of men are, but rather the determination of what their rights should be. Or, let me put it this way: These economic controversies require a decision, not of what justice is, when well-established principles and standards are applied to what was done yesterday or is being done today. They call for a decision of what justice should be in what is going to be done tomorrow, a decision fit for honorable mention in the records of our eternal compromising between what ought to be done, or what we would like to do, and what we can do!

Gottron Named to Head Cleveland Stock Exch.

CLEVELAND, OHIO — Richard A. Gottron, a partner of the firm of Gottron, Russell & Co. and active in the Cleveland Securities Traders Association, is the only nominee for the presidency of the Cleveland Stock Exchange for 1947. Mr. Gottron now is Vice-President of the Exchange.

Richard A. Cottron

The following were nominated by the Exchange's nominating committee for the board of governors: Morton A. Cayne, of Cayne & Co.; Lloyd O. Birchard, of Prescott & Co.; Frank C. Gee, of First Cleveland Corp.; David G. Skall, of Skall, Joseph & Miller; Edward E. Parsons Jr., of Wm. J. Mericka & Co.; Clemens E. Gunn, of Gunn, Carey & Co.; Guy W. Prosser, of Merrill Lynch, Pierce, Fenner & Beane, now completing his second term as mart head, and Daniel Baugh III. Election will occur at the annual meeting Feb. 19.

"Our Reporter on Governments"

By JOHN T. CHIPPENDALE, JR.

Prices of government securities continue to hold near the top of the recent trading range, despite differences of opinion on the near-term outlook of the market. . . . Some hold the opinion that prices are not vulnerable at these levels, although there might be minor adjustments from time to time. . . . Periods of hesitation, or unimportant down swings in prices, have turned out to be areas of consolidation, which have cleared the market of temporary over-bought positions. . . .

While sensitive to news, particularly to statements from the monetary authorities, it is not believed that the market's present balance will be upset or any important change in the trend of prices take place until there is a new issue of long-term bonds. . . . Such an offering is not expected for some time to come by this group. . . .

GOOD DEMAND

Although the floating supply of securities will increase as prices advance, particularly the bank eligible issues, demand is and still should be ample to take these offerings without affecting very much the general level of the market. . . . Absorption of the larger supply of securities improves the whole position of the market, since not all of the funds realized from the sale of eligible issues will go into cash or short-term securities. . . . There are, and will continue to be, purchases of long-term restricted obligations for income. . . . This will take up the issues that are being sold by institutions and individuals that will need funds for their own business and other purposes. . . .

As for the bank eligible issues, the shift in holdings, which have been the most important market factors, should continue for some time. . . . This movement from shorts to longs, and vice-versa, should not have a noticeable effect on the market. . . . Changes in positions made so far have resulted in price movements, have been pretty much of a standoff. . . . The elimination of speculators last year put the market much more on an investment basis. . . .

RATE PATTERN TO STAY

Purchases of government securities made recently have been almost entirely for income, and holding to maturity, which means they would probably not be disturbed, irrespective of price trends. . . . Also the end of the inflation fear, which seemingly takes along with it the prospects of a boom, probably removes one of the greatest threats to a change in interest rates, as well as the equilibrium of the government bond market. . . . The rate pattern will not be changed despite opinions to the contrary, until there are more data available on basic economic trends. . . . If anything should happen to money rates, it is more likely they will ease a bit, particularly if business conditions should deteriorate somewhat. . . .

INVESTORS WARY

On the other side of the picture, there are those who believe that the market is moving up to levels that it will not hold too long, because investors are becoming more skeptical about putting funds to work at these prices. . . . It was also pointed out that institutions are not showing a tendency to follow prices up, with this particularly true of the restricted bonds. . . .

Where positions have been taken on by insurance companies (especially the big ones) in the longer-term ineligibles, it has been because they have sold out eligible obligations. . . . Very little new funds are going into long restricteds from these sources. . . .

Volume in many issues has tended to decrease sharply at recent trading sessions as prices hovered about their tops of the present trading range. . . . Sales must be made in most instances before purchases will be undertaken, because investable funds are either being kept part in cash, and part in short-term issues, and are not being put into the market at these levels. . . .

MONETARY POWERS WATCHING

There are appearances of over-bought positions in certain issues, although so far this has not been substantial enough to mean very much. . . . It is felt that the monetary authorities are ready to intervene either directly or indirectly if the market should move up very much from current levels. . . . The threat of intervention on the part of the powers that be, will tend to hold the market in check, and keep prospective buyers out of it, until it moves down to lower levels. . . .

Although economic conditions will be all-important in determining future financing policy, it is held in some quarters that there could be an offering of long-term bonds to non-bank investors, at any time, particularly if needed to halt an upward surge in the market. . . . This would mean lower prices for all issues. . . .

Offerings of securities by other investors, especially those by business concerns and some individuals in order to meet the needs for working capital and allied purposes, will increase and there will not be sufficient demand at these levels to absorb the new supply. . . . Also a trading market is expected in the financial district and a trading market was never a one-way affair in either direction. . . . There are many holders of government securities that have profits, that will be taken as soon as there are signs that the market is topping out. . . . These sales would tend to bring the level of prices down. . . .

STRONG ARGUMENTS

Those on the bullish and bearish side of the government market appear to have ample arguments to support their respective views. . . . Whether the market is in as good shape as some seem to think it is, and those that are looking for lower prices are doing so in order to get back into the market again, because they are sold out bulls, is something that time alone will tell. . . . It should, however, not be long before the answer is known. . . .

MARKET ACTION

The market pattern is still about the same with buying of the eligibles going on for the purpose of building up income and, to a lesser extent, rearranging maturities. Shifting of maturities is still very important. . . . The partially exempts were in demand and made a good showing. . . . The ineligibles were bought by trust accounts, pension funds as well as smaller institutional investors. . . .

The larger New York City institutions took on the longer restricted issues, as part of switches out of the eligible obligations. . . . Quite a bit of shifting of holdings among non-bank investors seems to be going on now. . . .

MODERATE PRICE INCREASES

Although there have been considerable discussion about the upward trend of the market and some apprehension over the level at which government securities are selling, price advance since the end of last year has been rather moderate. . . . It is this price increase since the year-end, that has been largely responsible for the cautious attitude among some money market followers. . . .

The best showing of all issues from the end of last year to date, was in the partially exempt bonds, with the 2⅞s due 1955/60, the 2¾s due 1958/63, the 2¼s due 1954/56, the 2s due 1953/55, and the 2¾s due 1956/59, the leaders in that order. . . .

The 2¾s due 1960/65, showed only a slight price rise. . . . The intermediate maturities still seem to be the most attractive of these bonds. . . . While these securities all advanced since the close of 1946, the largest gain was only ½ a point, not enough to set the market on fire. . . .

INELIGIBLES

The ineligible bonds made the next best showing but here again increases have not yet exceeded ⅜ of a point, nothing to get excited about. . . .

The 2½s due 1962/67, 1963/68, 1964/69 were the best actors, followed by the 2½s due 1965/70, the 2¼s due 1959/62 and the 2½s due 1966/71. . . .

The smallest gain of all was in the 2½s of 1967/72. . . .

OTHER LEADERS

The eligible taxables as a group made the most limited gains of all issues with top advances only about ¼ of a point. . . . The leaders were the 2s due December 1952/54, the 2s due Sept. 15, 1950/52, the 2¼s due 1952/55, and the 2½s due 1952/54. . . . Next came the 2s due 1951/55, the 2s due 1952/54, the 2¼s due 1956/59, and the 2s due March 15, 1950/52. . . .

Increases of less than ⅛ of a point was registered in the 2½s due 1956/58 and the 2½s of 1967/72. . . .

The 1½s due Dec. 15, 1950, were practically unchanged, which gave added proof to reports of trading out of this security into better yielding issues of about the same maturity.

"We Can and Must Have Industrial Peace!"

(Continued from page 605)

which it is now perodically subjected, I should have no hesitancy in doing so.

Over the past 30 years, I have had occasion to see labor and management at their best, and at their worst. At their best, they were a boon to all mankind. Working together they felled forests, developed mines, built railways, improved technologies and showed us a way to comfort, leisure, prosperity and happiness. At their worst, they mistreated each other, acted unfairly, breached the peace, and brought insufferable harm to us all.

For years and years, to be more specific, capital was rapacious, selfish, bold and domineering. Its policy was to have and to hold power and to grasp for more. It exploited labor, practiced extortion on the public, and corrupted government. Its strength was so great, its prestige so vaunted, its arrogance so bold, as to make it appear that plutocratic wealth was invulnerable to attack from any source whatever. But, how are the mighty fallen! The Interstate Commerce Act, the Sherman Anti-Trust law, and the Security and Exchange statutes, and like legislation, have effectively checked the predatory raids on which capital formerly engaged, and today, concentrated wealth—chastened and humbled—holds a cup in its hands, and asks for governmental alms.

Labor Waxed Strong and Great

Labor, in the meanwhile, by Congressional enactment, and court decisions, waxed strong and became great. Under shibolleths, such as the right to strike, the dignity of labor and a higher standard of living, it has been granted an immunity that is not only unjustified, but positively dangerous to public security and welfare. It now dictates to management, and management dares not reply. It defies the government and treats its officials with contempt. As and when it wills, labor establishes a picket line and is itself the sole judge of the justification of that establishment. Those who dare cross that line are the butts of insult, and frequently the objects of felonious assault. Upon such occasions, the law—yours and mine — gives acquiescence, and looks on with indulgence. The pickets often take possession of property to which they haven't the slightest claim, and it is sometimes burned and destroyed.

But, this is not all, labor has become so strong, and arbitrary, so ruthless and dictatorial, so inconsiderate and monopolistic, that it dares declare—to you and to me—and to the public in general—that we shall eat and drink—that we shall be warm or cold—that we shall travel or remain at home—that we shall, in a sense, live or die, as and when its leaders—drunk with power, and filled with the opiate of authority—sound the bell that summons us to heaven or to hell.

In making these statements, let me assure you that, notwithstanding the sins of management, I am not the enemy of management. Let me doubly assure you that, notwithstanding the sins of labor, I am not the enemy of labor. It is my wish and desire; it is indeed my earnest prayer, that each of these groups should thrive and prosper, and that each of them should have every right and privilege to which it is entitled. At the same time, there is one thing that I emphatically insist must come to pass. It is that neither capital nor labor, whether acting separately or together, shall have the power to deprive you and me of the necessities of life.

Nothing Sacrosanct About Labor

In my judgment, there is nothing sacrosanct about either organized labor or organized capital. Each of them is a powerful economic force; and usually, each of them wants all that it can get—by fair means or foul. But whatever be their desires—whatever be their demands—whatever be their respective rights—the right of this nation to live in peace and security, together with the Government's right to sovereignty, are matters that transcend and outrank them all.

The United States of America is itself a Union. It is made up of forty-eight indestructible states, and it has a membership of 140 million men, women and children. In order to make the world a safe place in which to live, our Union — yours and mine — recently waged war against the enemies of mankind. In that struggle, we massed the collective strength of the land and, in our effort to assure our freedom, poured out wealth and treasure that are beyond calculation. But, we did far more than that. We sacrificed the lives; we shattered the bodies and ruined the health of hundreds upon hundreds of thousands of the flower of American youth. Are we now to be told that all this was in vain? Are we to understand that, while Hitler and Mussolini are dead and gone, their places have been filled by other men—our own blood and kindred—and that their despotisms will supplant those of the dictators who no longer encumber the earth? My answer to these questions is in the negative. I hope yours may be the same.

In speaking as I have, I trust I have not been violent. If so, I apologize. Nevertheless, the present situation as respects management and labor, requires that men speak plainly and forcibly. Other men, upon similar occasions, have certainly done so. One of them was Woodrow Wilson. When he was confronted with the prospect of railway and coal mine strikes, he was moved to say: "There are some things in which society is so profoundly interested that its interests take precedence of the interests of any group of men whatever." He further remarked: "The difficulty about situations like that we have passed through is this that the main partner is left out of the reckoning. These men were dealing with one another as if the only thing to settle was between themselves, whereas the real thing to settle was what rights had the 100 million people of the United States. The business of government is to see that no other organization is as strong as itself, to see that nobody or group of men, no matter what their private interests, may come into competition with the authority of society."

Another luminary of America—Mr. Justice Holmes—once spoke in a similar vein. He said: "I have no doubt that when the power, either of capital or labor, is asserted in such a way as to attack the life of the community, those who seek their private interest at such cost are public enemies and should be dealt with as such."

From this quotation, my vehemence, if any, would appear to be something less than that of Mr. Justice Holmes. I wish to take vengeance upon no leader—either of industry or of labor. I have no wish to destroy, or indeed impair the power, of any well disposed labor organization. The purpose I have in mind is that leaders of both management and labor, together with the groups over which they exercise authority, shall be subjected to the obligation that rests upon each and every citizen of the United States. That obligation is that when a citizen exercises his rights and privileges, he shall do so in a manner that will not inflict undue injury and suffering upon his fellow men. If this obligation be not observed, the persons or the communities, that are aggrieved, can resort to an American court, and there obtain the protection and redress to which they may be entitled.

Capacity of the Judicial Process

Upon this theory, and in reliance upon the ability and capacity of the judicial process to render justice whenever it needs be administered, I propose that when labor disputes bid fair seriously to affect the normal channels of interstate commerce, and are found to be incapable of solution through negotiation, mediation, arbitration or other peaceful procedures, they be settled by judicial decision, and not by gage of battle.

It is my belief that nowhere else in all the world does fairness and impartiality prevail to a greater than in the Federal Judicial establishment. I also believe that if courts of the United States were authorized to exercise jurisdiction over such labor disputes, they could and would determine these controversies with right and justice to all concerned. If so, a blessing—devoutly to be wished—would descend upon this presently tortured and troubled land. The resulting social and economic gains would be of inestimable benefit—not only to capital and labor—but the country as a whole.

As bearing upon this statement, let us glance at the economic loses that strikes bring about. According to the Department of Labor, this country, in the first six months of 1946, suffered 85,500,000 man days of idleness. This loss amounted to 2.39% of all working time. The resulting monetary loss to the workers is reliably estimated to be $770 millions or $250 per man.

These figures, unfortunately, do not take into account the losses that came to workers who, not being on strike themselves, were forced into idleness because of their employer's inability to obtain supplies on which their workers could operate.

The Impact of Strikes

But, there is more! You and I, as well as wage-earners, feel the impact of strikes. They tie up our supplies of goods, deprive us often of milk, groceries, coal, drugs and medicines. Being unable to get the things that are needed for health, comfort and convenience, our living standards must necessarily fall. Being required to pay abnormal prices for the things that can be obtained, the purchasing power of our money is correspondingly reduced. If, due to a trolley or bus strike, your children are unable to attend school, they are subjected to a loss that is beyond redemption. And if, because of a rail or coal strike, you cannot properly heat your home, and someone dies, as a result, the responsibility may well lie at the doors of labor or capital, or both.

If labor courts were to come into existence, and were to gain the respect and confidence of both employers and employees, many strikes might easily be avoided. Pending the settlement of a dispute between management and labor, workers could stand—not in a bread line—but at their machines; they could live in peace instead of being engaged in war; they could retain their self-respect by acting as law-abiding citizens, and in refraining from becoming thugs and ruffians; their families, instead of being frightened, anxious and distressed as to what may happen to them, could have a sense of security, together with assurance that, whatever be the merits of the controversy involved, each of the participants, along with the public, would have justice under the law of the land.

These are some of the objectives for which I strive. It is encouraging to note that, across this land, thousands and thousands of persons—workers included—hope that these ends may be attained. Members of Congress have consulted me with respect to the feasibility of what I suggest, and one of them, a prominent Senator, has been supplied with the text of a bill that is designed—if it should be enacted—to put the plan into operation. This bill was drafted by my friend, Nathan April, of New York. For what he has done in the way of supporting my proposal, I wish publicly to thank him, and here and now, I express my gratitude.

Just what, if anything, will eventuate, I am unable to say. I hope, nevertheless, that something worth while will come to pass. If this, perchance, should also be your attitude, I trust you will make bold to declare yourselves. By so doing, it is conceivable that you may lend assistance in seeing to it that your country and mine—once and for all not only recovers, but henceforth will exercise the rightful authority of the American people.

Foresees Opposition

The measures I have in mind will be vigorously—perhaps bitterly—opposed. Those who are in possession of irresponsible power, seldom wish to relinquish it. In any such situation, I hold a firm conviction. It is this: when irresponsible power is possessed by any man, or by any group of men, that power, whether or not it be exercised, is a constant and threatening menace to the peace, order and welfare of organized society. That such power has been frequently exerted, and is today being exercised adversely to the interests of the American people, is within the certan knowledge of every person in this room. For our mutual protection, and for the maintenance and dignity of our birthrights, it is essential that those who hold this power should be forced to relinquish it.

The opposition that I anticipate will come from both labor and management. A dozen leaders of union labor have already expressed themselves as being antagonistic to the scheme I have outlined. This opposition was to be expected and is welcome. It is their desire that private might shall take precedence over public right, and that they may continue, as and when they choose, to engage in warfare against the citizenry of the United States. Their attitude should convince us that if some of our leaders of labor be not curbed, they may, conceivably, wreck industry, destroy the capitalistic system, and change our form of government. Within my own courtroom, a communistic labor leader has openly declared that if the court could not find the money to meet his demands, it would be well to permit the company whose affairs were under administration, to be operated by its employees who, he said, were the true owners of its property.

Management, too, will not willingly submit to the judicial supervision of its relationship to labor. Management says that, if this were to come about, it would impose restrictions upon the right of free enterprise. For this alleged reason, management prefers to maintain its present privilege to fight labor—and to do so unto the death. Management seems to forget that many of the industries, of which it has control, have to do with essential services and that, with respect to them, the public interest is paramount. I refer to common carriers, such as railways, telegraph and telephone facilities. I refer, too, to the production and distribution of coal, oil, gas and electric curent. I further refer to the production and fabrication of iron and steel, and the manufacture of automobiles. And finally, let me say that the public is vitally interested in the production of milk, butter and other food products. As respect these matters, certainly, the quarrels between management and labor should never be permitted to develop into a war against society. Of what good are the four freedoms about which we prate so loudly if the contending factions of management and labor instantly, and without provocation, can deprive us of each and every one of them?

Still other persons will say: "Under the plan you have in mind, labor would be deprived of its right to strike." "This right," they will declare, "is so vital that it must never be surrendered." By way of reply, I wish to remark that labor's right to strike is in no way superior to my right, at all times, to be supplied with the necessaries of life. Nor, in my judgment, is labor's right to strike above and beyond the right of a man to work. And then, too, as we give thought to labor's right to strike, we should also remember the union members who go on strike—not because of their wish to do so—but because they must. These men, I have reason to believe, can be counted by the the thousands. If any one of them refuses to strike, or dares criticize the leader who calls an unwarranted strike, he is a marked man from that day on. By one pretense or another, suspension or expulsion from the union is likely to be his portion. When this occurs, the worker will be deprived of his job, and prevented from getting another. Indeed, luck will be his if he be not subjected to mayhem, and torture. And yet, whatever happens to the worker, he is from a practical standpoint, without the slightest chance of redress. Repressed in their utterances, dominated in their actions, and victimized frequently by officials who should give them protection, the lot of many of our workers has about it some of the characteristics of serfdom. These conditions should, and ultimately must end.

Right to Strike vs. Right to Live

But, reverting to the matter of the right to strike, the right to live, and the right to work, it is to be observed that no right is an absolute. Theoretical right is one thing; actual right is quite another. And, theoretical rights, whenever they are about to collide with each other, must be subjected to mutual adjustments. Such adjustments of your rights and mine are the reasons why you and I—day in and day out—can live our lives—not only without friction, but in peace and amity. For like reason, labor's right to strike may possibly have to undergo qualification, and be curtailed. For my present discussion, however, the right to strike is hardly more than an academic abstraction. Under my proposal, partiality in labor disputes would give way to impartiality, and labor, having obtained a better method of obtaining its just ends, would be without the necessity for strikes. The right to strike is of value only when some proper end of importance is thereby to be attained. If that end may otherwise be attained, and with more likelihood of justice, the right to strike has lost its value—has actually been replaced by something better, viz., the attainment of justice through the medium of law.

Outline of a Labor Court

Now, at the risk of committing a trespass upon your time, let me give you a brief outline of some of the principles by which my labor court would be guided:

First—The establishment of a Federal Labor Court to consist of a Chief Judge and eleven Associate Judges.

Second—Sessions of the court shall be held in New York, Chicago, San Francisco and Washington, D. C.

Third—The Court shall have three divisions, to be known respectively as the Eastern, Central and Western.

Fourth—The Chief Judge shall preside over sessions of the court that are held in Washington. The office of the court's clerk shall also be located in that city.

Fifth—Three of the Associate Judges shall be designated to each of the three divisions, and be the permanent judges for each such division. The two remaining Associate Judges shall be designated as Judges at Large. They shall be resident in Washington and shall perform such duties as the Chief Judge assigns them.

Sixth—The court shall have jurisdiction to evoke, hear and determine all labor disputes having to do with Interstate Commerce.

Seventh—The court shall be equipped with such facilities and clerical aid as may reasonably be required. It shall also be provided with the services of a Marshal.

Eight—Any employer or labor union who or which is party to a labor dispute may petition the court for the settlement thereof, with the exception that if a party is represented by a bargaining agent, such agent shall be before the court. The Chief Judge shall determine the *prima facie* sufficiency of the petition. An answer shall be filed on behalf of each respondent and the case will then stand at issue. A time and place for the hearing of the controversy shall then be fixed. The merits, thereupon, shall be heard by three judges of the Labor Court, and, in any judgment rendered, at least two of the judges must concur. Such decree as may be made shall embrace a specific direction or award on each demand in issue.

Ninth—In deciding a case, the court shall be guided by these principles:

(a) No settlement decree shall be inconsistent with any law of the United States which regulates maximum hours of labor or minimum rates of pay;

(b) No decree shall require that any employee be or remain a union member;

(c) The wages payable to an employee shall not be withheld from him for any reason unless prescribed by a law of the United States;

(d) No employer shall be required to pay an employee any monies other than as wages;

(e) Confiscatory wages shall not be awarded;

(f) No settlement decree shall contain an award that will preclude a fair profit to the employer. Neither shall it be made upon the premise that an employee is entitled to share in the profit of the employer.

(g) Consideration shall be given to prevailing rates of wages in the industry involved and to the effect of a rise or fall in wages upon the general economy, and to the adequacy of existing living standards.

(h) In fixing wages, the court shall take into account, an employer's past, present and future profits.

Tenth—If a settlement decree awards employees a rate of wages that is higher than that previously existing, the new rate shall be retroactive to the time of beginning suit, and such sums shall carry interest at six percent.

Eleventh—Settlement decrees shall be enforced by injunctive decrees, receiverships, and otherwise.

This, gentlemen, is a mere sketch of the jurisdiction and procedural details of the plan that has occurred to me. I am not irrevocably committed to any one of the items to which I have referred. What I have said is merely suggestive. It is my hope, nevertheless, that some of you may meet together and evolve a feasible and just means by which industry may thrive; by which labor and management may be treated fairly; and by which this country can be relieved of the travail of civil war.

Let us remember with Mr. Justice Cardozo that—"Property, like liberty, though immune under the Constitution from destruction, is not imune from regulation essential to the common good. What that regulation shall be, every generation must work out for itself." (Benjamin N. Cardozo, in "The Nature of the Judicial Process".)

First National Bank Of Memphis Promotes

MEMPHIS, TENN. — Hugh F. Sinclair, Assistant Manager of the Bond Department, First National Bank of Memphis, was made an Assistant Vice President of that institution in January. Mr. Sinclair, a native of North Carolina, became associated with the First National in 1940 as Mississippi representative. He entered the Navy in 1942, and was released three years later with the rank of Lieutenant in the U. S. N. R. In January, 1946 he was made Assistant Manager of the Bond Department.

Hugh F. Sinclair

The bank also advanced four other members of its personnel: James F. Hunt to Assistant Vice President, Howard Brenner to Auditor and J. C. Wyckoff and Robert D. Lambert to Assistant Cashier. Allen Morgan, Executive Vice President, was elected a director.

Helene Curtis Stock Placed on Market

Simons, Linburn & Co., on Jan. 28 offered 60,000 shares of 50-cent cumulative convertible ($5 par) preferred stock, series A, of Helene Curtis Industries, Inc. of Chicago. Of the total offering 40,000 shares initially are being offered to employees of the company for a period of 30 days at $9.50 per share. The balance of 20,000 shares, plus all of the stock not subscribed for by employees is being offered to the public at $10 per share. The company, formed in 1928, is the nation's largest manufacturer of beauty parlor supplies and equipment.

Proceeds of this financing will be added to the general working funds of the company. It is the present intention to use these funds to finance carrying of inventories, to pay operating expenses and to finance accounts receivable.

The new series A preferred stock is redeemable on 30 days' notice at the option of the company at any time in whole or in part at $11 per share plus any unpaid cumulative dividends. The preferred stock is convertible into common stock at an initial rate of two shares of common for each share of preferred.

When organized under Illinois laws of 1928, the company was known as The National Mineral Company. From Nov. 27, 1945, to Oct. 26, 1946, it operated under the name of National Industries, Inc., and on the latter date its present name was adopted to take advantage of the good-will established under its trade name of "Helene Curtis."

In addition to the manufacture and sale of beauty supplies, beauty equipment, and furniture for beauty shops, the company also manufactures 16-mm film and sound projectors.

America Has Lost Much of Its "Good Form"

(Continued from page 590)

form, the pattern of its national existence, began to change.

Taking advantage of a deep depression that troubled the minds of the nation, forgers of a "better way of life" began to put their ideas to work. Ideas on credit and debt mixed in a clash of economic and social ideologies. We began tilting at windmills with new definitions of credit. We sought to find an easy solution to economic and social problems through liberal use of public credit.

Money and credit throughout history have always been an easy field in which to sell magic to the public and the alluring prospect of solution for our problems through government spending found ready acceptance. Our national concept turned from its historical form of individual self-reliance to one of looking toward Washington for help. Every class of society—the unemployed, the worker, the banker, the business man, the farmer — called upon the Federal Government for services or benefits or both. Chambers of Commerce asked for Federal aid in all kinds of civic projects. And out rolled from the Federal treasury the thrift and savings of past generations gathered in by public borrowings.

We used government credit liberally without regard to cost or economic value.

The paradox of financial history is that through inflation of public credit we sought solution of problems which the inflation of private credit had inspired. Recall with me that in the late twenties, sound principles of credit had been ignored, we used private credit liberally without regard to economic value, we organized corporations and we built buildings for the purpose of selling stocks and bonds, instead of selling stocks and bonds for the purpose of organizing economically sound corporations and building needed buildings.

Sooner or later a reaction had to set in. It did. Values collapsed. The nation lay prostrate. But that was private credit, we were told. Public credit was different. Public debt didn't matter.

A substantial opinion at that time supported this new school of credit and debt and with Federal funds freely flowing we revived in America the ancient cult of worship for the state.

Up until Pearl Harbor nothing much had happened. Nothing much except an increase in public debt of roughly $50 billion and through government absorption of savings large areas of our financial economy had been transformed into a system of State Capitalism.

Came an unavoidable war with its inescapable need for billions, and additional billions were spread properly to our Allies under lend lease agreements. But at no time shall we be discussing war debt. The war debt is a debt we incurred to protect again the "good" American form we are discussing.

Effects of Peace

Came peace . . . public debt still did not matter for the new school of debt continued in session, and therefore there was little or no demand for economy in government. Requests for benefits and services to special classes grew to new heights, subsidies of various kinds and credit guarantees of various kinds multiplied. Every nation of the world that found itself unequal to the task of solving its own social and economic problems looked to the United States Treasury for financial aid. We delivered surplus goods abroad running into billions. We liberally extended additional billions of foreign credit in exchange for promises to pay and very little else from some debtors, at least, whose ability to pay is questionable.

Such is the background of our present national debt, which on net balance after high taxes, is around $260 billion. In addition to this direct liability, contingent liabilities of government on guarantees and subsidies of one sort or another run into uncounted billions more. Examples: The government obligation to support farm prices . . . any losses on foreign loans . . . losses on operations of the 41 or so corporations qualified to make loans and, under statutes setting them up, to float billions of securities. These losses as they occur—as they certainly will in some amount—become a direct charge on the Federal credit.

"How much owest thou?" On the direct debt alone? The average citizen does not realize what the amount of the public debt means to him. But breaking it down helps. The amount of the present debt means $1,800 for every individual; $8,500 for every family. The people of Baltimore, Maryland, owe as their share $773,190,000.

You may ask at this point why so much familiar financial history? And the answer I give is that this is the background against which problems of the present appear; we need this history as prologue because, to quote a classic: "To understand our tracts, we must find their roots."

Fiscal Problems

Two grave problems face this country today in connection with fiscal affairs of government, and upon their solution rests everything we hope to achieve as a nation in the future. One of these problems is to find enough taxes to carry the present public debt and the current high costs of government without destroying revenue-producing activities. The other problem is to uproot teachings of the false and futile school that debt doesn't matter and to replace it with a broad political will for a balanced Federal Budget.

The solution of the two problems will not be easy. Let me elaborate.

On the question of finding taxes without destroying revenue-producing activities:

Effect of Present Taxes

Without another dollar added to the Federal debt to increase the cost of carrying it and with current costs of government anywhere near present levels, the tax-take already stunts the growth of business, especially small and medium-sized business, which must plow back profits in order to flourish. For business and the individual, taxes at present levels undoubtedly destroy incentives to gain. A business or a man who ventures and gains $50,000 only to owe half of it to the government is under no great urge to take all the risk and all the problems that go with earning large incomes. In addition, taxes at present levels chisel from weekly pay envelopes burdensome amounts, much of which represents the channeling of purchasing power from support of productive activities of commerce into non-productive activities of government.

A thousand dollars paid in taxes by a man of average income means a thousand dollars less for purchasing automobiles and refrigerators and radios and other things. And inasmuch as an average of 80% of the sales price of these products is labor, a thousand dollars less purchasing power means $800 less employment for those who make automobiles and refrigerators and radios and other things.

Even so, these damaging high taxes are still inadequate for sound financial planning by the Federal government on the basis of projected income and expense figures.

Forgetting for the moment various bills for benefits or services to special groups totalling 30 to 40 billion dollars that have already been introduced, the 80th Congress just convened has received a budget bill recommended by the present Administration calling for expenditures of 37½ billion dollars. While on the other side of the budget, tax income is estimated at very little below wartime levels, although the prospect of declining taxes, even at present rates, seems clearly visible ahead.

Optimistically the Administration hopes to have a surplus of $100 or $200 million.

With uncertainties ahead, this is very close estimating . . there comes to mind the story of the bookkeeper who at the end of the year produced his ledger and proudly told his employer that there was a profit. "Very good," said the employer, "but you've put the profit in red ink." "Yes, sir," replied the bookkeeper, "but we didn't have any black ink and had I bought black ink, there wouldn't have been any profit."

Relatively in amount this story fits the small margin of surplus projected in the Federal Budget just submitted to the Congress—a margin dangerously below that needed for safe financial planning on so large a scale. It is dangerous because we have reached a point in the fiscal affairs of the nation where we should no longer take chances on incurring government deficits. "Inflationary fluff" in the form of government deficits should be stopped now—indeed must be stopped now—for a balanced budget is the only road to social and economic progress. It is the only way to prevent progressive accumulation of public debt which must ultimately endanger the Government itself.

This is no private opinion of mine. It is the lesson history teaches.

Edmund Burke, way back in history, gives us one of the best definitions of the danger of excessive public debt: "Public debts are likely in their excess to become the means of their subversion. If governments provide for these debts by heavy impositions they perish by becoming odious to their people."

Put another way, this merely means that as taxes become socially undesirable in a free government they become politically inexpedient. Those who levy odious taxes are voted out of office.

Paying Off Debt by Inflation

The lesson history teaches is that this leaves government debt to be reduced or paid by the most vicious form of all taxes — inflation—a tax which falls heaviest upon those least able to bear it.

But that is history you may say.

Lack of greater sensitivity to present high taxation has been due up to now to an increase in real income among lower wage groups during the temporary and unnatural war economy. As real income declines due either to lower wages or to inflated prices, sensitivity to high taxes will become more apparent.

The conclusion which I have tried to reach so far is that public debt is debt, to be treated as such, to be renewed, extended, and refunded from time to time as sound management of public credit dictates: that this must be accomplished within limits of a compensating tax program that will not reduce revenue producing activities; that will not slam the brakes down hard on business and industrial effort.

Will Budget Be Balanced?

And this brings us logically it seems to the second problem we mentioned—creating the political will for a balanced Federal budget.

In our democratic process the only way to stop deficit spending by government as an instrument of public policy is to develop the political will for it among those who hold voting control. It may be that the process is already underway — conversation around Washington since the Nov. 5 election gives some indication that sounder approach to public spending is in the offing. But can we be sure about this? The indications are not at all clear, the bills totalling thirty to forty billion dollars already introduced in the new Congress are disturbing.

What we need to do its to build among the sensible majority of voters in this country a sounder understanding of, and a greater support for proper management of public credit which cannot be undermined by pressure groups or vested interests now, or by "pump-primers" who will move in later when the going gets tough.

Easy? Not at all and for several reasons.

Henry Hazlitt in his interesting book "Economics In One Lesson" points out that the great fault of the spend-and-spend-by-government school is that it fixes its gaze on immediate benefits and completely overlooks secondary consequences. Mr. Hazlitt had something else in mind, but certainly one secondary consequence of Federal aid is that reliance upon government by so many for so much has been partially responsible for the national fatigue that is hindering industrial progress at this time. Eighteen months after war, when production is needed to stem a tide of inflation that is running, absenteeism is at an all-time high. Unemployment rolls are padded while work waits for millions.

Reliance on Federal Aid

The primitive perversity of laziness has been encouraged, individual initiative and individual resourcefulness has been numbed among millions, either by direct government aid or by the expectation of government aid.

Federal funds are being paid to an estimated 20,000,000 Federal employees and beneficiaries of one kind or another and it will be difficult to get large numbers of these interested in a balanced Federal budget if it means less money for them.

Everyone likes government protection, government aid. There is no record in history of any human being who wanted to be "weaned" away from government aid. Many years ago former United States Senator Robert L. Owens of Oklahoma speaking on this point told the story of a six foot, sixteen year old boy chasing his mother through the corn field, howling, "Damn her hide, she's trying to wean me."

Please understand, however, we are not condemning all government aid. There are great and deserving needs which government must support. Many demands for public aid have strong emotional appeal.

No one here is without sympathy for the social unfortunate and we are all willing to provide a floor for these high enough to violate no one's self respect. We can all think with deep emotion about the nation's obligation to the returned veteran, we can think with still deeper emotion about those who did not return and about their loved ones who weep. The hunger and despair of peoples in war—devastated nations of the world—pull at our hearts.

But national solvency comes ahead of all claims against the Federal treasury. About public debt we must be cold, dispassionate, rational. We cannot feel about public debt, we must think.

For without financial stability in government there can be no stability anywhere. If the government of the United States, responsible as it is for monetary stability, keeps living beyond its means and makes up the difference with new money, the inevitable result will be a gradually rotting currency that will destroy all thrift, all savings, all dollar rights to veterans' claims, social security, and everything else.

In the end the inflationary worst would happen—national insolvency, frustration, national destruction.

Could this happen here? It could of course. But as an incorrigible believer in the intelligence of the majority of the American people—their tendency to "ultimately do right"—I don't believe that it will happen here. We could, however, seriously damage for several generations the bright future that is before us by failing to put our Federal financial house in order—now.

Toward this end there is a nation-wide educational job to be done, and I am presuming in conclusion to say that in helping to get this job done all of us share a high responsibility.

In our own ways, let us all work toward an America better informed on the whole question of public credit and public debt, so that the political will of the nation will support in government men of courage needed to solve grave problems which the present high debt poses. Those we have discussed, others you will think of.

But whatever the problems behind the curtain of the future, if I may return to our theme, let us meet them in good American form. They will be easier to meet that way.

Let us get back more to depending upon the historically basic American form of individual self-reliance and individual resourcefulness. Let us get back to self-faith; renew and refresh the courage of American pioneers, turn our backs on collectivism in government and revive more of the voluntary collectivism that characterized the growth of this nation, the spirit of the bees, the quilting bee, the husking bee, the collectivism which plowed a sick neighbor's acres, collective logging to build a house, or a barn.

Let us safeguard the financial and physical health of America by working at building the moral and spiritual foundations of individuals, for they are government.

My last line I have borrowed from another.

"Men and women are the essential elements of a nation and the nation will be precisely what they are."

OIT Raises Quotas for Foreign Producers

The Office of International Trade has announced that foreign projects producing tin, lead, zinc, hard fibres, edible vegetable oils, petroleum, sugar and rubber are now eligible to secure scarce materials beyond the commercial quotas. Certification must be given by the OIT that they are essential to the foreign projects concerned.

James Carrigan Joins Francis I. duPont & Co.

Francis I. duPont & Co., members of the New York Stock Exchange and other leading exchanges, announces that James E. Carrigan has joined the firm and will manage the branch office at 630 Fifth Avenue in conjunction with DeWitt H. Roberts.

Transportation Outlook—1947

(Continued from page 594)

pages to the degree experienced in 1946, the 1947 rail freight volume in ton-miles should be somewhat greater than in 1946. Continuation of car shortages may be expected, but gradual improvement in car supply during 1947 seems likely.

Freight traffic increased sharply from July through October with loadings rising to a peak of 942,000 late in October (highest level since 1930). Revenue ton-miles during the third quarter fell only 5.6% short of the level in the corresponding period of 1945, compared with a decline of 25.3% in the first six months of 1946 from the same period of 1945. The heavy freight volume in the late Summer and Fall of 1946 was accompanied by severe car shortages, which reached a peak of 39,089 (24,839 box) during the week ended Nov. 2.

Class I railroads installed 34,127 new freight cars in the first ten months of 1946, but destroyed or dismantled 23,968 cars and otherwise disposed of 26,424 cars. Box cars comprised 15,293 of those installed and 12,747 of those destroyed or dismantled.

The total number of serviceable cars owned by class I roads declined from 1,687,499 on Jan. 1, 1946, to 1,676,103 on Nov. 1, or by 11,396 cars, according to data from the Association of American Railroads. Despite this decline of 0.7% in serviceable freight car supply during the first ten months of 1946, there is reason to think that the downward trend may be halted, and may even be reversed, in 1947. The rate of delivery of new cars by builders showed a tendency to increase in 1946. During the third quarter, an average of 4,123 cars (1,888 box) were installed monthly, compared with a monthly average of 3,043 cars (1,281 box) in the first half of 1946. New cars on order Nov. 1 totaled 62,145 (29,176 box), compared with only 37,130 (17,219 box) on order Jan. 1.

The maintenance of industrial and agricultural production at high levels will require continued maximum utilization of car supply. Delivery of cars presently on order, however, may reduce or eliminate current shortages and may permit some slight relaxation of existing controls on car utilization.

Revised Estimate

The railroads' revised estimate of 1947 passenger traffic shows a decline from 65 billion passenger-miles in 1946 to 46.3 billion in 1947, or 28.8%. Whether this estimate proves to be precisely correct, it seems probable that the 1947 level will be considerably below 1946 despite an expected high level of economic activity and consumer income available for travel.

Revenue passenger-miles of class I roads were estimated by the carriers at 55.7 billion for the first ten months of 1946, a decline of 19.5 billion, or 25.9%, from the corresponding period of 1945. Of this decline, 4.1 billions were accounted for by the decrease in organized troop movements. No doubt much of the rest of the decrease is attributable to the falling off of service-connected travel other than organized troop movement. In 1947 this type of travel will be less than in 1946.

Besides the loss of most of the war-created military travel, railroads are faced with the loss of an increasing share of the traffic diverted to them from other agencies of transportation during the war. Intercity and suburban buses, airlines and the private automobile will offer formidable competition for passenger traffic in 1947. The railroads, however, are taking steps to meet such competition. Improvements in service are being made by adding new equipment, speeding up schedules, and offering through sleeping-car service from coast to coast.

Motor Carriers

The intercity for-hire trucking industry carried more tonnage in 1946 than in 1945 and there is some indication that local trucking likewise made a gain during the past year. Because of the close relation between the level of industrial production and the demand for trucking service, the entire trucking industry stands to benefit from whatever increase in the output of goods occurs in 1947.

Intercity common and contract motor carriers of property suffered a slump in business for the first few months after the war's end as a result of reduced output of goods which move in large volume by truck. The recovery in the second and third quarters of 1946, however, was pronounced. Class I truck tonnage in the first quarter of 1946, based on a large sample of carriers analyzed by the American Trucking Associations, was 7% under the first quarter of 1945, and mileage was down 5.3%. In the second quarter, tonnage was 1.9%, and mileage 5.3%, above the corresponding period of 1945. The third quarter showed even more favorable results, with tonnage 9.8%, and mileage 12.1% over 1945.

Index of Tonnage

The ATA index of tonnage carried (1938-40 equals 100), based on a smaller number of carriers than in the foregoing sample, was 182 for the first ten months of 1946, compared with 179 for the first ten months of 1945, an increase of approximately 1.7%. As an indication of the high level of operations in recent months, it may be noted that in August and October, 1946, the index stood at 204, the second highest monthly indexes ever recorded by ATA.

With these facts in mind, it seems clear that truck tonnage has reflected increases in production since the first part of 1946 and will continue to respond to changes in the level of industrial output. What is less clear is the extent of any diversion to the trucking industry which might take place as a result of increases in rail freight rates, authorized by the Interstate Commerce Commission, effective on Jan. 1, 1947. A rise in local trucking business seems likely because of traffic arising from transfer of goods to and from the terminals of other carriers, and a larger volume of retail and wholesale deliveries as consumer goods become available in greater quantities.

Bus Picture Mixed

Intercity bus transportation presents a mixed picture at the moment. Some companies report that their volume of passengers has continued practically at wartime levels while others have indicated that their traffic has leveled off somewhat lower than 1945. Taken as a whole, the volume of traffic during 1946 has continued at a slightly higher level than anticipated since the production of private passenger cars has been below that expected at the beginning of the year. The industry expects that its traffic volume during 1947 will decline below the present volume, but will be somewhat higher than that of 1941.

Passengers carried by city and suburban lines in 1946 held at approximately 1945 levels, and the transit industry expects to maintain a high volume of traffic during 1947. A principal difficulty from which this industry suffers is shortage of new equipment. On Sept. 1, 1946, the industry had on order over 1,400 P. C. C. cars of which it may receive delivery of 300 to 400 units during 1946; trolley coaches on order exceed 3,500 but not more than 10% of these will be delivered before the end of the year. An even less favorable report was received regarding delivery of other busses.

The outlook for passenger automobiles in 1947 seems encouraging. Registrations in 1946 exceed those of 1945 by approximately 1,600,000 units, and the industry proposes to construct 4,000,000 cars during 1947. Many of these cars will replace automobiles which will be discarded during the year, but the production should result in substantial increase of new equipment.

Estimates of the Public Roads Administration indicate that in September, 1946, total travel on rural roads exceeded that in September, 1941 by almost 3%. In the West a sharp rise occurred while in the East there was some decline from the 1941 level. With the increased number of vehicles in operation in 1947 as compared with 1946 it seems almost certain that total highway travel will be above prewar levels.

Water Carriers

Shipping operations by American carriers in the foreign trade field will continue at record levels during 1947. Fast, modern ships are available to United States citizens at low cost under the Ship Sale Act. Cargoes from the United States are still heavy and there is an increasing amount of inbound freight. Foreign shipping companies have acquired some additional vessels, including some American-built vessels, but their fleets are still substantially smaller than before the war. There continues to be an actual shortage of shipping, not including the huge Government-owned fleet which has been placed in reserve by the Maritime Commission. Accordingly, freight rates and shipping profits in foreign trade are likely to continue at high levels throughout most of the year.

In the domestic trades, freight rates remain relatively low despite some measure of relief resulting from increases authorized by the ICC to become effective Jan. 1, 1947. Accordingly, high operating costs, labor unrest, loss of traffic to the rails during the war, and the unsuitability of many of the war-built merchant ships constitute major obstacles which will tend to discourage former ship operators from resuming operation in the coastwise and intercoastal trade. With the exception of the bulk traffic in petroleum, coal and sulfur, water services in the coastal trade may be discontinued unless substantial changes are effected in rates or costs. The only alternative appears to be continued operation at a loss by the Government.

Full scale industrial activity will result in another year of heavy traffic on the Great Lakes. Traffic on inland waterways will probably show some increase over 1946 as inventories rise and the economies of cheap transport become more important.

Air Carriers

It may be expected that there will continue to be a marked rise in air cargo traffic during 1947. Within recent months air freight programs have been inaugurated by all but a few of the scheduled airlines which did not already have such programs. Steps are now being taken to provide a through air freight service on a nation-wide basis. Direct air express service will also become more widely available during the coming year as the newly certificated feeder airlines bring this service to additional communities. Considerably greater capacity for cargo will be available over the scheduled airline system during 1947 as the result of planes recently acquired or scheduled for delivery within the near future.

Since the end of the war, a large proportion of the total air-cargo business has been handled by non-scheduled and contract carriers. During August, 1946, for example, five of these lines alone carried nearly three-fourths as many ton-miles of traffic as did all of the scheduled airlines under both their air express and air freight services. It is difficult to project the outlook for the growth of the nonscheduled services, partly because so little is known about their present economic characteristics, and partly because of the uncertainty regarding possible future regulation of their operations.

In recent months, airline passenger traffic has been increasing rapidly, at least partially through diversion from surface carriers, particularly the railroads. During August, 1946, airline passenger miles amounted to more than one-sixth of rail coach traffic, and about 40% of rail Pullman traffic. These ratios compared with 6.5% and 14.4% respectively as of the end of the war. Since the recent data relate to a period when airline capacity was still short on many routes, it may be expected that some further degree of diversion may take place in the future unless, of course, there is some change in the competitive situation brought about by a significant change in either rail or air fares or quality of service.

Observations

(Continued from page 593)

employment than is now exceptionally existing, will surely increase the opposition of union labor against greater importing. The unions know that, apart from the over-all broad economic factors that are involved, only crude rubber and a very few other items of comparatively minor importance are at all needed by our extraordinarily self-sufficient economy. With our imports geared to the present extraordinary nature of our home economy (extraordinary not only because of the very high level of activity but also because of carried-over wartime shortage of durable goods), we should realize that in the coming years, with a return to more normal domestic conditions, imports—far for rising—will fall. In that case our so-called international trade must entail export subsidies of visible or disguised nature, such as we have been employing since the time of World War I to furnish our foreign customers recurrently with the chips to "pay for" our exported goods. Seemingly the most likely alternative is a socialization of international trade.

Implications of the Election Returns

Of course, the great immediate problem is a domestic political one, arising from the coming-to-power of the Republicans. Their wholehearted support of the nation's bipartisan policy for political internationalism is running directly up against the party's traditional tariff-protection philosophy. But it must be realized that there is intra-party as well as inter-party disagreement on the economic question. In the GOP some of the leaders are following the traditional whole-hog, pro-tariff line; while the attitude of others runs the gamut all the way down the line from mild, to no opposition to tariff reduction. Senator Taft is following a sort of middle-of-the-road policy of letting the present Trade Agreements Act run until June 1948, provided that Secretary Clayton acts reasonably about reductions. Others like Representatives Knutson, Reed and Jenkins, contend that our export business is responsible for only a very small part of our employment.

Senator Butler, the most voluble legislator on this question, now complains that the hearings in connection with the negotiations are being unduly "rushed through" in three weeks; that the demonstrated hardship cases will not be protected; that the State Department is conducting the negotiations in a spirit of partisanship; and that the country should stop its free-and-easy giving and appeasement throughout the world.

Faults in the New Charter

Also irrespective of the particular United States elements, the ITO is getting off on the wrong foot.

In the Charter itself we see that the commodity agreements embodied in chapter 7 constitute a chief fault, being capable of being considered almost an instrument of defeat. Negatively, it is a defensive weapon, joining in the over-all neglect of cyclical unemployment problems. Positively, we will be engaging in the promiscuous use of trade restrictions; and trying to support prices by quantitative controls. Affirmatively also, the commodity agreements represent a kind of joint legitimatized conspiracy for grand-scale cheating of the consumer through world-wide unkeep of prices.

Enforceability

Also importantly, ITO faces the same problem as fundamentally confronts the entire UN Organization; and which has been a cause of evident and hidden crisis ever since its incubation at Dumbarton Oaks, Yalta, and San Francisco—that is, *the absence of teeth for enforcement.* In its subservience to national sovereignty prerogatives, the ITO Charter is necessarily stripping itself of enforcement-power, as is every other UN unit, including even the Security Council with its emasculating veto provisions for barring outside compulsion.

Theoretically, the Organization does have a measure of power to see that members live up to their obligations, beyond merely hearing charges of non-compliance, holding hearings, making complaints, and conducting investigations and studies. But its method of bringing pressure is limited to a sort of ostracism and excommunication in the tradition of the Greek city states which were practised in medieval times. It must be remembered that ITO is a voluntary association of nations, each of which has undertaken to observe certain principles, and to obey various rules in the conduct of its trade relations with other countries, in consideration of reciprocal contracts by them. In the case of a broken agreement, or failure to negotiate with other members for tariff reduction, or persistence in maintaining quantitative restrictions, or engagement in harmful export subsidies, the Organization directors can release its members from their obligations to the offender. It can bar them from most-favored-nation privileges, and impose discriminatory duties on the offender's trade, or employ quantitative restrictions.

The trouble with such sanctions, however, is that if they really do carry weight in enforcement, measures are entailed which mean economic warfare; and these—it has been found—can only be applied when a real military conflict is deemed riskable. And even only halfway punitive measures are bad in undermining the spirit and purposes of the Organization, because of its basic attempt to abolish discriminations and restrictions on a world-wide scale.

Hence it would seem that in the last analysis enforceability will rest on the twin pot-shots of publicity and exhortation!

Railroad Recession Ahead!

(Continued from page 594)

000,000—as compared with slightly under $500,000,000 net income in 1941, and $524,000,000 net income in 1930.

1946 Exceptional

As we have indicated, 1946 was an exceptional year. It was a year in which the national income approximated $164 billion and the Federal Reserve Board's index of industrial production averaged 170—a year when agricultural output was of record proportions, when the railroads had negligible competition from coastal and intercoastal waterways, and when highway competition was far below normal. It was also the last year of EPT carryback credits.

The High Break-Even Point

However fine a showing is possible under the new rates on 1946 traffic, it is evident that the railroad break-even point is too high for successful operations on normal traffic. Declining traffic would bring declines in expenses more or less automatically, but such declines would not be sufficient. Special steps are required. The Union Pacific announced in December that it was reducing the number of its employees from 50,000 to 45,000. The B. & O. has talked of cutting 8,300 employees from its payroll. Whether or not this is to be done at the expense of maintenance has not been intimated. Apart from "savings" on maintenance, the economies the railroads can make quickly in their use of labor are comparatively limited. A great deal is possible with increasing mechanization, but that takes time. Meanwhile, railroad labor is reported to be preparing new wage demands, and the prices of materials important in railroad costs are still rising. Weighing all factors, the railroads apparently need half again as much gross as they had in 1924 to produce the $558,000,000 class I net income of that year.

The Prospects for Gross Income

What sort of gross is in prospect? Within certain obvious limits, that will be determined by the shifting fortunes of our national economy and the competitive status of the railroads *vis-a-vis* other means of transportation—highways, waterways, airways. In any event, sooner or later we shall have to get down from the present plateau.

Allowing for business gains in the initial quarter and a fairly sharp recession late in the year, it has been estimated that the Federal Reserve Board's index of industrial production will be off somewhat less than 5% for 1947 as a whole. In short, the F. R. B. production index is expected to average 161 or 162 for the year. Interestingly enough, the latter figure is identical with what the F. R. B. index averaged in 1941.

As I have said, the railroads handled 475 billion ton-miles of freight in 1941, which compares with an estimated 583 billion handled last year. Thus, if industrial production should average the same as in 1941, and railroad ton-mileage should bear the same relationship to industrial production as it did in 1941, the railroads would be handling 108 billion fewer ton-miles than they handled last year. That would mean a drop of roughly 20% from last year's ton-mileage.

Industrial production is an important factor in railroad freight traffic but it is not the only factor. We must consider production on the farms. Farm output certainly will not drop to the 1941 level this year. Crop prediction is far from being an exact science. It never will be. The results will depend on God and the elements. All the same, on the basis of the actual and prospective acreage of plantings, the chances seem to favor 1947 agricultural output at least approximating the record total of 1946.

Suppose we assume that agricultural traffic is to remain unchanged from 1946, but that all other freight traffic is to decline 20%. On that assumption, and after allowing for the Ex Parte 162 rate increase, aggregate railroad freight revenues would approximate $5.5 billion — versus roughly $5.7 billion estimated for last year.

Prospective Drop in Passenger Travel

Regardless of other developments, railroad passenger business is bound to drop sharply in due course. While we must allow for a population increase of perhaps 8,000,000 since 1941, it should be borne in mind that in that year the private automobile accounted for nearly 85% of all intercity passenger travel. It should be borne in mind also that the airlines, which in 1941 handled only 1.4 billion passenger-miles, handled about 6 billion last year—which is equal to more than 20% of the railroads' total 1941 passenger-mileage. The railroads themselves are estimating a 25% decline in passenger business (from the 1946 level) this year. That may prove liberal or conservative—depending to a considerable extent of new automobile production. A drop of well over 30% is clearly indicated within a fairly short period. And that will not be the bottom.

A 30% drop in passenger business from the 1946 level would mean an $890,000,000 annual rate of passenger revenues. With freight revenues at $5.5 billion, passenger revenues at $890,000,000, and an allowance of say $500,000,000 for miscellaneous revenues, total operating revenues would come to just $3.9 billion. That figure is 9.2% less than the $7.6 billion gross estimated to have been realized last year.

It is obvious that the railroads as a group would have a hard time showing any earnings after fixed charges this year on gross revenues of $6.9 billion—particularly if new concessions should have to be made to labor. Yet $6.9 billion is not a low figure in comparison with the prewar record of annual rail gross. It is indeed far above the peacetime norm. It compares with less than $5.4 billion gross realized in 1941, and with less than $6.3 billion in 1929 (when the net income approached $900,000,000).

Present Relationship of Rates to Costs Is Unsound

I do not mean to imply that the time is past when the railroads could be expected to show any significant profit on gross revenues of $6.9 billion or less. I believe they can make a decidedly good showing on such business—but not with the indicated 1947 relationship of rates to costs.

I trust you will understand that I am not actually predicting a $6.9 billion Class I gross for 1947. Struck by the fact that the estimate of industrial production for 1947 was the same, on the F. R. B. index, as the production recorded for 1941, I made use of the 1941 parallel in its application to railroad operations. But I did so only for one purpose: to point up the fact that the "reconstruction problems" of the railroads, far from being over, have still to be faced.

Insofar as 1947 itself is concerned, the production index may well prove too conservative. If there is no general business recession whatever (and the railroad car supply situation improves soon enough), 1947 rail gross might conceivably run well over $8 billion—in which event rail earnings would be quite handsome. Even if the estimate of industrial production proves accurate, 1947 railfreight traffic should be substantially larger than that of 1941, not only because of the higher prospective agricultural output, but also because a larger proportion of the industrial output is likely to move by rail. Moreover, rising automobile production is unlikely to find full reflection in deflection of passenger business from the railroads until the condition of the highways has been improved. The chances are that the railroads will gross at least $7.5 billion to $7.8 billion this year, if not more, and that they will have combined net income in excess of $300,000,000. If new concessions to labor can be avoided, the earnings will be improved correspondingly.

Sweeping Changes Needed

The fact remains that sweeping changes will be required (in wage-scales, or in prices paid for materials, or in operating methods, or in technology, or in railroad rates—or in a combination of these factors) before it can be said that the railroads are adjusted to profitable operation on a "normal" basis. In the meantime, the market may be expected to capitalize railroad earnings very conservatively.

The general economic outlook beyond the forepart of 1947 is admittedly uncertain. There is as yet no reliable indication that the bear market in securities is over. With the 1946 wage difficulties still fresh in the memory of the investing public, the possibility of new retroactive wage concessions looms up before the railroads. Under the circumstances, the risks are excessive in speculative railroad securities. Sound railroad bonds are attractive, and so are the best of the preferred stocks—and special situations among the common stocks. But railroad security analysts should place their emphasis upon quality. If they do this the interests of the investing public will be well served.

Washington And You

(Continued from page 593)

reciprocal trade talkathon is whether the Administration will compromise its tariff paring plans. Answer as of today is—No. House Republicans may logroll through a resolution urging the President to postpone new tariff reductions. The Senate could be expected to ignore this maneuver. End result would be more starch for State Department reduction policy.

* * *

Some members of the Committee for Reciprocity Information feel relief to domestic consumers of copper should be granted via a slash in the 4-cent copper tariff. They disagree with the status quo advocates, argue the present emergency would justify a rate cut.

* * *

Sugar controls will be retained. If the courts invalidate the existing system, then Congress will vote a new one. Housewives' importunities for unfrozen supplies are offset by warnings from industrial users that the junking of rationing would bring lopsided distribution, hoarding and kited prices. Decontrol remains remote.

* * *

Here's today's outlook for legislation immunizing railroads from antitrust prosecution for fixing rates with Interstate Commerce Commission approval: (1) Senate will write and pass the bill despite Administration opposition; (2) House will OK it, too; (3) the President will veto it; (4) after that—don't risk your money on whether Congress will sustain or override the veto.

* * *

Export-Import Bank will bend loans in accordance with national foreign policy if new Secretary of State Marshall fixes policy. The Secretary believes the Bank, just as reciprocal trade pacts, should be utilized to brace our political and economic ideology abroad. Bank President Martin disagrees, wants some security for his handouts.

* * *

Whole issue between Marshall and Martin philosophy may be undraped by a congressional inquiry. Instrument of the investigation could be H.R. 665 requiring the Export-Import Bank to secure on all loans over $5,000,000 risk participation up to 25% by private banks. Such safeguards would remove the Bank from political and economic warfare. It has little chance of adoption but might centralize attention on the Bank's operations.

* * *

Changes in basic social security law this session are to be limited to freezing the old age insurance tax at current level of 1% on employer and employee. The President would liberalize certain benefits, would cover certain uncovered workers. Congressmen don't agree, are little disposed to tinker with this type of reform until the direction of a peacetime economy has become more apparent.

* * *

SEC may return to Washington by late summer, perhaps not until later. Finding office space for the agency and housing for its employees will require fancy legerdemain in this town.

* * *

Don't underestimate the possibility that an increase in exemptions may be substituted for the Republican campaign gospel of a 20% across the board personal tax cut. Lawmakers who would hike exemptions have been doing missionary work, quietly and without the 20% ballyhoo, but nevertheless effectively. Fulminating 20 percenters won't capitulate but may take a drubbing on this one.

* * *

Terminal leave bonds of World War II veterans, upon maturity will be redeemable at banks throughout the country if tentative Treasury Department wishes ripen. Banker cooperation in cashing war bonds has been so effective that Treasury-Secretary Synder envisions the same arrangement on terminal leave securities, scheduled to mature five years hence. A powerful Congressional bloc would advance the redemption date, has introduced enabling legislation, may actually thrust it through to enactment.

* * *

Secretary Snyder is inviting the banking fraternity to enlist its employees and patrons in the struggle against theft and forgery of government bonds and checks. During fiscal year 1946, the Secret Service received for investigation nearly 30,000 checks and 12,000 bonds. In nearly every instance the forged instruments had to be traced back through one or several banks. Secretary Snyder says that anything bankers can do to impress continually on employees and customers the necessity of careful handling of government obligations will be of great help.

* * *

The danger of a mounting timber shortage is authentic, can be overcome only by a systematic U. S. program to conserve and make forest lands more productive. Currently we are (1) growing 35.3 billion board feet of sawtimber annually, (2) cutting or destroying 53.9 billion feet, (3) thereby accumulating an annual deficit of 18.6 billion feet. A prewar tendency, big depletion has become a postwar reality.

* * *

Navy Department has no intention of torpedoing its new policy of bypassing the wholesaler and buying ship service store supplies directly from manufacturers. In fact, the Admirals may expand this deal to other purchases. War Department may say, me too. It wouldn't be surprising if wholesalers carried their complaint to Congress.

* * *

Congressional appropriators are wondering what trust-busters view as a "major violation." President Truman, in his budget message, asked more money for the Justice Department's Antitrust Division, said that agency would devote its time and expenditures to "major violations" of the monopoly laws. Last week the division unveiled creation of a Small Business Unit to protect little fellows, especially veterans, from monopolistic intrusion. Congress may give a look to see where the money is coming from.

* * *

Lawmakers will kibbitz on the Federal Reserve System's credit control performances, but it's still too early to guess how or when this meddling will be undertaken. Either Senate or House Banking Committee—or both—will invite Chairman Eccles and his brother Board Governors to climb Capitol Hill and pass in review.

* * *

Commercial airlines need not worry about any near-term assessment to help finance the government's $25 billion airways improvement program. Policymakers agree the carriers should help pay but can't do it now. Congress will discuss the cost-sharing theory, won't invoke it this session.

* * *

SEC would still like to have your ideas on how to perfect the Securities Act of 1933 and Securities and Exchange Act of 1934. Communicate not later than Feb. 15 with Orval L. Dubois, Secretary, SEC, 18th and Locust Streets, Philadelphia 3, Pa.

* * *

Centralization of all Federal power project activities in one government agency has caught the fancy of free enterprise exponents in Congress and there's a good chance the proposal may go before the House for disposition. House Interstate and Foreign Commerce Committee will hold hearings on, may report out favorably the bill by Illinois Republican Representative Dirkson merging Federal power activities. The measure would eliminate bureaus, fire bureaucrats, reduce the payroll.

Chas. Gill Associated With Wayne Hummer

CHICAGO, ILL. — Charles R. Gill, until recently with the Office of the Alien Property Custodian and previously with the Reconstruction Finance Corporation, has become associated with Wayne Hummer & Co., members of the New York and Chicago Stock Exchanges. Prior to his government service, Mr. Gill was for 12 years associated with Frank C. Rathje, former President of the American Bankers Association, in the Mutual National Bank of Chicago and is well-known to bankers all over the Central West.

John Allen Siberell has also become affiliated with the firm.

Geo. A. Bailey Admits

PHILADELPHIA, PA.—George A. Bailey is admitting George A. Bailey, Jr. to partnership in the firm, which maintains offices at 1518 Walnut Street.

Outlook for Income and Spending

(Continued from first page)
decline labeled as anything from a modest readjustment to a serious depression. Never before during a period of intense prosperity was there so much talk about a business recession or depression. This talk reflects a lack of confidence and a fear of the future. Even the conservative trend in politics and the evident intent of Congress to attempt to resolve some of the political conflicts in favor of business does not seem to instill any sustained enthusiasm or confidence on the part of capital.

This state of affairs has led to an outburst of predictions of widely divergent content and quality, reminding one of the Tower of Babel in the confusion they engender.

This psychological and emotional state flows from the very situation in which we find ourselves. On the one hand, our economy is supported by powerful factors that are still operating fully to give us the unprecedented level of activity and national income. On the other hand, many of these very factors are necessarily, to a considerable degree, of a transitory nature and once some of the major positive forces are partly or fully exhausted it is clear that we will be faced with many difficult problems.

Powerful Economic Forces Still Dominating Economy

At this time we are dealing with the prospects for 1947 which greatly eases and facilitates the task of diagnosis. This is because we enter the year with such powerful economic forces that for a considerable portion of the year, at least, the economy as a whole will continue to develop along the same lines as during the last part of 1946.

Capital Formation at a Very High Rate

We are all more or less familiar with these powerful forces. I shall deal with capital formation first. Foremost is the intense demand on the part of industry for new plant and equipment. Expenditures for producers durable equipment at the present time are running almost three times prewar and 75% higher than in 1941. Among the important elements that provide strength and force to a rising and high level of business the expenditures for plant and equipment by private industry surely ranks near the top. Among these expenditures it is difficult to pick any particular field as outstanding. Practically every field—ranging from factory machinery, electrical equipment, office appliances, through farm implements, trucks, railroad equipment, and to commercial and industrial construction—is enjoying unprecedented activity. Perhaps the machine tool industry is behind the parade but, if so, only because it is not running at the enormous rate of some of the others. Among these industries it is important to note that aircraft manufacturing, including military aircraft, is a relatively new, large-scale contributor to the economy and that the demand for producers durable equipment for military needs must also be reckoned with as a new and important factor in our postwar world.

The expenditures for producers durable equipment during the year 1947 will exceed those of 1946, but it is doubtful that the current rate will increase to any degree. Orders in this broad field of activity are no longer increasing and, if anything, are showing a declining tendency. Unfilled orders are still very large and activity will continue at a high rate for some months, with the peak likely to occur during the first six months.

The second stimulating factor in the present rate of capital formation which has contributed much to our present prosperity is net exports of goods and services. The outlook for net exports of goods and services during this year is less easily determined. On the one hand, we know the enormous needs abroad that will continue for several years; but, on the other hand, we also know the difficulties that we are faced with in order to translate these needs into business for American industry. Both political and economic factors are of the greatest importance in this field. The temporary stimulus through lend-lease, the activities of UNRRA and some increase in imports resulting from our high rate of activity at home are the most important factors that will make for a smaller net export balance of goods and services during the remainder of this year. Considering all aspects, it does not seem likely that this particular stimulus to our economy will continue throughout the year as powerful as it is now.

The third important economic factor in capital formation that has greatly contributed to the rise in business has been accumulation of inventories. At the end of the war inventories of civilian products were low and a wholesale transfer of war inventories took place from private industry ot the Federal Government. Since that time inventories have increased at a very rapid rate. About half the increase has been due to price increases and half a result of an increase in physical stocks. Much publicity has been given the inventories. A rise in inventories in itself is normal during any period of rapid business expansion. It is only when a basic change takes place in the economic trend that inventories become burdensome. Inventories are "high" or "low" depending upon the economic situation as a whole, and not upon their absolute level at any given time regardless of other considerations. It is quite clear that the process of building inventories is temporary. Once the basic situation changes this process will be reversed and will exert a negative influence upon our economy rather than the strongly positive influence that has prevailed, particularly during recent months.

These three important elements in the present situation—the extremely high rate of capital expenditures by industry, the large net export balance of goods and services, and the rapid accumulation of inventories—are so important because of their peculiar leverage effect on all other sections of our economy. They all provide a large volume of employment and incomes without any offset in consumers goods and services that will have to be taken off the market within our domestic economy. In all three a peak is likely to be reached some time this year. For the year as a whole their combined contribution to our economy should be about the same as last year.

Release of Consumer's Spending Dominated Economy Since End of War

When we turn to the other divisions of our economy we find conditions of activity perhaps even greater than those that characterize the sections already discussed. We are all familiar with the developments in the field of consumers goods since the end of the war. The outstanding development, in its impact on national income, was the release of spending for goods and services by the consumer. The need for goods, the accumulated savings, the rapid increases in income payments, and the sharp reduction in the current rate of savings, brought about an increase in consumer expenditures of almost 30% within 12 months.

Consumers Goods Industries Becoming Much More Vulnerable

Until last fall the position of the consumer goods industries as a whole was extremely strong. Large wage increases early in the year came when consumer goods shortages were still acute. Widespread strikes made it impossible to effect a speedy reconversion. The result was a great increase in the inflationary pressure in our economy. The consumer was, in effect, subsidized by an abnormal rate of income in relation to the gross national product. Corporate profits were far below normal in relation to national income in a number of industries, while in other industries not subject to strikes and shortages profits were far greater than normal.

The end of price controls and other war controls changed the picture drastically. During the fall, prices rose sharply and income payments to individuals improved at a relatively slow rate. At the present time, therefore, on the basis of the current output of consumers' goods and services at the prevailing level of prices, it is becoming clear that a large further rise in income payments to individuals is necessary in order to prevent a glut in many consumers' goods markets. The position of the consumer goods industries is now rapidly becoming vulnerable. This is perhaps the greatest change that has occurred in our economy in the last six months.

Obviously, the position of consumers' durable goods is far stronger than that of consumers' non-durable goods. The widespread mark-downs in soft goods are merely an indication of the vulnerable position of this part of our economy. These mark-downs are, of course, in part normal at this time of the year and may not necessarily reflect the beginning of a downward trend in the entire price level. In fact, commodity prices as a whole are still rising despite the decline in prices of farm products and the increasing disparity in the movement of prices of individual commodities. It is clear, however, that the present trends cannot last long before a more general downward movement will occur. It is unlikely that income payments to individuals will increase enough to enable the market to absorb the increasing flow of consumers' goods at present prices, even with a larger-than-normal rate of spending out of income, somewhat lower personal income taxes, and a continuation of the rising scale of the use of consumer credit. Further wage increases and some moderate further increase in employment may increase national income payments during the next few months; but on the other hand, lower farm prices will mean somewhat lower farm income. Price weakness this year in consumers' non-durable goods and later in the year in consumers' durable goods seems a very likely development.

As in the case of consumers' goods and services generally, residential building is also in a much less favorable position than a year ago. Here again, the cost factor is proving to be a real obstacle. Housing on a vast scale, as desired and demanded in many quarters, is impossible under present cost conditions. Even with the favorable credit terms available it is unlikely that residential construction can improve from present levels without substantially lower cost of building materials and a reduction in other costs of building that are now so abnormal.

Government Spending Will Be Moderately Lower

Finally, the last element to be discussed in appraising 1947 is that of government spending. We all know that the trend of Federal spending will be downward although the reduction is likely to be gradual and there may be very littlle reduction in the next twelve months. Some increase in state and local government spending is bound to occur in view of the needs of municipalities and states to make up for deferred maintenance during the war years. Federal, state and municipal expenditures for public works are increasing but are still relatively low. States and municipalities are planning large expenditures once labor and materials become available, and if business should decline the Federal Government will probably increase expenditures substantially. This year, however, public works expenditures are unlikely to be significant. On the whole, therefore, governmental spending is likely to remain of about the same importance during the year as it is now.

Our Economy Close to An Immediate Postwar Peak

Looking at the composite of all of these various basic parts of our economy, we find that at the present time we are running at an extremely high level that can only be characterized as an abnormal boom and that in practically all of the segments of the economy we are developing elements of instability. The boom is so great and has such momentum that its force can only be spent gradually and, therefore, there is but little doubt that the year 1947 as a whole will be highly prosperous.

In fact, if we had time to go into details of the analysis of national income and expenditures we would find that many of the figures will be almost as good as, or in some cases better than in the year 1946.

	$ Billions 1946	1947
Govt. expenditures for goods and services	38	35
Private capital formation	29	30
Consumer purchases	125	130
Gross nat'l product	192	195
Income payments to individuals	165	164
Personal taxes & non-tax payments	19	17
Disposable income of individuals	146	147
Consumer purchases	125	130
Consumers' savings	21	17
Retail sales	96	100

These estimates for 1947 are obviously bound to be in error. They are based on the assumption that the position of consumers durable goods and housing is strong enough to stimulate the use of a great deal of additional consumer credit and that the consumer will spend a larger-than-normal part of his income.

On the face of it these figures are highly favorable and suggest that the year 1947 will be one of great prosperity. It is likely that these figures will prove to be misleading for it isn't the level of the year as a whole that is important, but the trend during the year. The year 1946 was one of sharply rising gross national product, income payments to individuals, production and prices. The year 1947 may easily prove to be one during which the trend of these items will be downward for a considerable part of the year. At the present time gross national product is probably running at between \$215-\$225 billion a year, national income payments at between \$175-\$180 billion and total retail sales between \$105-\$110 billion a year. These figures are all substantially higher than the average level suggested for the year 1947. This year may go down in history as the year of the immediate postwar peak in business. If that should happen, it still remains to be seen how severe any business decline will be that may start during the year.

Stock Exch. Ass'n to Meet in Chicago

Employee and public relations and costs and revenues will among others constitute the major discussions of the 33 members of the Board of Governors of the Association of Stock Exchange Firms at its Winter meeting to be convened in Chicago on Feb. 5 for a four day meeting.

At the sessions at which these subjects will be considered Chicago partners and managers of member firms have been invited to participate for the first time.

"It is hoped by this innovation," said James F. Burns, Jr., Harris Upham & Co., President of the Association of Stock Exchange Firms, "to enlarge our functions as a sounding board of member firm opinion for the stock exchange industry. In addition to the background of member thinking our governors have obtained from nearly every major financial center in the nation from which they come, we will have the benefit of midwestern thought directly. Judging from the response to our invitations there will be a gratifying attendance to these sessions."

Business sessions of the Board will be held each morning and afternoon. Open sessions will be Wednesday afternoon, Friday morning and afternoon.

In addition to the Governors and officers of the Association of Stock Exchange Firms, John A. Coleman, Adler, Coleman & Co., Chairman, Board of Governors, and Edward C. Gray, First Vice President of the New York Stock Exchange, will attend the meeting.

Following is a list of Association of Stock Exchange Firms Governors:

Sidney J. Adams, Paul Brown & Co., St. Louis; Harold L. Bache, Bache & Co., New York; Geo. E. Barnes, Wayne Hummer & Co., Chicago; D. J. Bogardus, Bogardus, Frost & Banning, Los Angeles; J. C. Bradford, J. C. Bradford & Co., Nashville; Sydney P. Bradshaw, Clark, Dodge & Co., New York; Springer H. Brooks, Piper, Jaffray & Hopwood, St. Paul; Gilbert U. Burdett, Laidlaw & Co., New York; Wymond Cabell, Branch, Cabell & Co., Richmond, Va.; Lyon Carter, Estabrook & Co., Boston; William W. Cumberland, Ladenburg, Thalmann & Co., New York; Richard P. Dunn, Auchincloss, Parker & Redpath, Washington, D. C.; F. Dewey Everett, Hornblower & Weeks, New York; Albert D. Farwell, Farwell, Chapman & Co., Chicago; Harold P. Goodbody, Goodbody & Co., New York; M. Donald Grant, Fahnestock & Co., New York; Benjamin Griswold, III, Alex. Brown & Sons, Baltimore; James E. Hogle, J. A. Hogle & Co., Salt Lake City; Wilbur G. Hoye, Chas W. Scranton & Co., New Haven, Conn.; William E. Huger, Courts & Co., Atlanta; James M. Hutton, Jr., W. E. Hutton & Co., Cincinnati; George R. Kantzler, E. F. Hutton & Co., New York; Thomas F. Lennon, Delafield & Delafield, New York; Laurence M. Marks, Laurence M. Marks & Co., New York; Leonard D. Newborg, Hallgarten & Co., New York; Joseph M. Scribner, Singer, Deane & Scribner, Pittsburgh; Laurence P. Smith, Bennett, Smith & Co., Detroit; Winthrop H. Smith, Merrill Lynch, Pierce, Fenner & Beane, New York; Walter W. Stokes, Jr., Stokes, Hoyt & Co., New York; Gardner D. Stout, Dominick & Dominick, New York; C. Newbold Taylor, W. H. Newbold's Son & Co., Philadelphia; Homer A. Vilas, Cyrus J. Lawrence & Sons, New York; John Witter, Dean Witter & Co., San Francisco.

Overhauling the Securities Act

(Continued from page 591)

ness be unburdened, that free and open markets proceed unhampered and that administrative hamstringing of industry be terminated.

This mandate was recogized by the OPA in generally discontinuing price ceilings.

It was recognized by the President through his lifting of restrictions heretofore existing and declaring the cessation of hostilities.

The turn has been called in the securities field and it is well recognized that the time to act is now.

We have a vital recommendation.

Section 15A of the Securities and Exchange Act of 1934, commonly designated as the Maloney Act, has been a thorn in the side of the securities business.

It gave birth to the National Association of Securities Dealers and has created a storm of controversy which shows no sign of subsiding.

Let us touch briefly on but a few of the evils engendered by the Maloney Act.

First and foremost, we flay the monopolistic provisions which under the rules of the NASD make it mandatory for its members to treat non-members on the same basis as the general public, thus preventing the sharing of commissions and preventing participations in underwritings among members and non-members except on an inequitable basis.

The result of this inequity is that brokers and dealers as a safeguard to the earning of a livelihood are compelled to join the NASD, while at the same time despite this compulsion, regulatory bureaucrats argue that the NASD is a voluntary body.

Another evil is the absolute control of the NASD by the SEC, the power of life and death which the latter has over the former. A reading of the statute makes it plain that any hope there can be independence of action by the NASD is futile.

The SEC must approve the existence of a National Securities Association. It must approve its format and rules and regulations. It may compel the passage of certain rules, and under certain circumstances, it may suspend or terminate the existence of a National Securities Association.

These interlocking bodies, these auxiliary policemen who act en camera, are urgently in need of divorce.

The welfare of the public and of the securities industries requires this.

Yet another evil is the attempt to control spreads and profits by the SEC and the NASD.

The "NASD 5% spread interpretation" is a wicked, senseless and un-American thing. The manner of its being placed in operation, without submission to NASD members for approval, will always be an ineradicable black spot.

Without going into detail, it is sufficient to say at this time that the interpretation disregards the profit motif in business and creates an antagonism of Main Street against Wall Street, because, as must be plain, firms doing a large business can operate at a smaller average unit cost than the little fellow.

We have enumerated only a few of the evils and could go on to many others if space permitted.

Some of the defenders of the NASD have referred to it as an "insulator between the SEC and the public."

That insulation should be necessary is a sad commentary on the lack of effectiveness of SEC operation.

Administrative bodies, properly functioning and conscious of their responsibilities to the people, need no "insulators."

If other administrative bodies were to adopt an attitude like that of the SEC, and create for themselves statutory insulating organizations, what a silly picture it would present and what an unnecessary mess of wheels within wheels.

In this intended SEC program of presenting to the Congress "desirable and workable" proposals for amendments to the Securities Acts of 1933 and 1934, the Commission could render no better service than to recommend the repeal of the Maloney Act.

Such repeal would enable a hampered and restricted industry to breathe with a degree of moderate freedom and to be released from that messy system which provides for the trial of alleged offenders by their business competitors who sometimes may exploit such a situation by acquiring the business of the one on trial.

If the mandate of the people is to be observed, the Maloney Act should go, and nothing would please us better than to act as one of its honorary pallbearers.

"Boom or Bust" Depends on Government

(Continued from page 590)

duction of goods, accelerated inflation's spiral.

When OPA ended after Election Day, many white market prices rose to black market levels. In the interval, production has increased; resistance of buyers to high prices has grown greater; and prices now adjust themselves toward lower levels.

The economy is now working out from under controls into a free competitive market. This transition will continue as long as controls remain on the economy.

As always, the price shakeout was actual before it was visible. Industrial stock market prices had reached a peak at the end of last May.

As always, specialties turned down before staples. Furs, jewelry, liquor and entertainment literally fell from their peaks. Professional entertainment is off 20% as measured by cancelled equity bonds. Furs are offered at half price and more. Department store markdown sales began the day after Christmas. Liquor prices declined and quantity increased.

Butter which sold at 72c under OPA, with a concealed 15c subsidy, is selling freely in the 60's when pasturage is not available. The reduction of specialty prices is in the interest of all the people. The economy has been helped and not hurt by this shakeout, up to now.

Hard Goods Price Declines to Follow

As always, price reduction on hard goods can follow specialty and soft goods by the difference in months needed for fabrication. Therefore, prices of refrigerators, automobiles, may be down late in 1947 but only if labor costs are stabilized and new tooling for lower costs can be achieved.

Before the American economy became the servant of purchasing power theories, fair profit was determined by open competition. Until the purchasing power theory took over, the public never saw automobiles, refrigerators, radios plowed under by restrictions on production and on profits.

Industry is now working its way toward higher levels of production which can generate high level purchasing power and also a profit for the production. The economy is still in a healthy, vigorous condition if the Government will let it function.

By their protests, the people have called for a program of legislative correction. The Gallup poll does not supply it. Political promises of 1946 are in mothballs now. The politicians have decided to protect themselves in 1948 instead of the people in 1947.

National leaders have forgotten that in fourteen years, peace and war, the Government added sixteen separate tax increases, each higher than the other. In 1947, it debates whether it should restore even one tax reduction to the people.

The present fears of the people are that the new Congress will balance the budget at $35 billion instead of $30 billion in 1948. That is better than President Truman's proposal to balance the budget by $200,000,000, which would require thirteen centuries of time to pay the debt. Tax receipts from individuals with high income should be increased by reducing tax rates 20%, as was done after the First World War.

Tax Outlook

Corporation taxes should remain unchanged in the calendar year 1947. The excise tax part of the law should be enacted immediately to prevent depression in the luxury industries. Taxes on furs and jewels and liquors can be paid by those who can afford to buy them. That the Congress intends to reduce taxes in a manner that will free venture capital can be doubted. If it fails to reduce taxes adequate to increase the flow of venture capital, it automatically invites the depression the Congress and all of us seek to avoid.

The great production machine that helped so much to win the war in 1945 is not yet permitted to function in 1947. The continued favoritism to labor by Government prevented production in 1946.

The public is no longer willing to grant wage increases under the impression that they will be paid by somebody else. The public now knows that it pays for these wage increases itself. The public understands, as it did not understand even one year ago, that wages are prices. Real wages and the standard of living rise together. Recent wage increases without equivalent increases in production, create only inflation.

No Need for Depression

There is no need of depression in this country, but inflation will surely produce it. With Government approval, feather-bedding prevents the production of goods. Labor receives two days' pay for one day's work. That is inflation. The forty-hour week with contracts requiring more than forty hours' work so as to get overtime pay, is both coercion and inflation. Union rules that require work done by one union to be duplicated by another, cause inflation because money is paid for goods not produced.

Labor will accept the fringe corrections President Truman suggested. The Republicans offer about the same program.

The closed shop is as satisfactory to politicians of both parties as a means of controlling votes, as it is satisfactory to the union bosses who use it control men.

The coercion of the Government by industry-wide bargaining under law appears equally as satisfactory to the Republicans as it was to the Democrats if it will reelect them in 1948. If it does reelect them in 1948, it will defeat them in 1950 and 1952 and reelect the collectivists and force a controlled economy upon us.

Freedom Not a Luxury

Freedom is not a luxury that can be indulged only in stabilized times. It is the chosen instrument of free men in getting out of confused times.

For fourteen years industry watched the reduction of liberty for all Americans. Liberty is an indivisible whole. It does not fractionalize into four freedoms or forty freedoms. It is integral and complete. Liberty is Magna Carta not for labor alone but for all of us. When a man must under the law pay union dues for a job his liberty is lost. When the right to risk and venture is reduced, man's liberty is lost. When taxes are used to punish those who have savings, liberty is reduced. When money is collected from industry to create jobs to keep politicians in power, the liberties that made us are reduced.

That Congress intends to restore equality before the law for employers with employees, can be doubted. If it fails to end labor's present monopoly by outlawing the closed shop and industry-wide bargaining, it can create depression.

The facts of technology and the visible production out of it, make silly the talk of inevitable depressions. They have already made obsolete Keynes' talk of "Economic maturity." In the presence of technological potential it is ridiculous to talk of over-saving and under-investment when American industry is utterly unable to tool up for the production of countless new products that will create completely new industries.

The present risk in America is that we shall have a shortage of labor, a shortage of capital and of savings.

Only the ineptitude of America's labor government can prevent the technological expansion that now beckons the people to higher standards of living.

The rate of technological change in industry has increased until it is the most important fact of life in America today. It is conservative to say that if Governmental sellout to labor does not choke us, we are on the threshold of the most glorious period of man's eternal struggle to improve his economic well-being.

In America, there is every resource to prevent depression except an understanding by the Government of the factors interfering with management decisions that now cripple management's ability to carry them out.

We are not working our way toward depression. We are working our way out into a fully competitive market.

If depression is to be avoided, taxes on venture capital must be reduced and labor's monopoly must be ended.

Unless this new Congress ends the labor and tax abuses which it was elected to correct, we can have depression in 1947.

There will be no depression in 1947 unless the Government makes it.

Harriman Ripley Offers Firestone Tire Debs.

A group headed by Harriman Ripley & Co., Inc. and Otis & Co., offered publicly Jan. 28 a new issue of $25,000,000 25-year 2⅝% Debentures due Jan. 1, 1972 of The Firestone Tire & Rubber Co. at 100% and accrued interest. The proceeds from the sale of the new debentures are to be applied to the redemption at $105 per share and accrued dividends of 250,000 shares out of the 414,000 shares of 4½% series preferred stock presently outstanding.

Capitalization upon the completion of this financing will consist of $25,000,000 new debentures, $40,000,000 3% debentures due May 1, 1961, 164,000 shares of 4½% series preferred stock (par $100) and 1,950,834 shares of common stock.

The indenture under which the new 25-year debentures are issued provides for a sinking fund to retire $750,000 principal amount of debentures in each of the first 15 years and $1,375,000 principal amount of debentures in each of the next ten years. This sinking fund is sufficient to retire the entire issue by maturity and will result in an average life of slightly less than 15 years for the new debentures. Sinking fund payments may be made in cash or debentures. The debentures are subject to call for the sinking fund on Jan. 1, 1948 or on any January 1 thereafter upon not less than 30 days published notice. The sinking fund call price starts at 101% and is subject to successive reductions during the life of the debentures.

The new debentures are also subject to call at the option of the Company as a whole or in part by lot at any time upon not less than 30 days published notice, if redemption be made on an interest date, and upon not less than 45 days published notice, if made on a date other than an interest date. The general call price starts at 103½% and is subject to successive reductions during the life of the debentures.

The company has agreed to make application to list the new debentures on the New York Stock Exchange.

A Windfall Tax on Retroactive Portal Pay

(Continued from page 608)

spent in productive labor or time spent in going to or from work where the employer agrees in advance to furnish transportation shall be included in work-time. As a matter of fact, of course, this is all Congress ever intended to include, but this bunch of New Deal lawyers who are on the Supreme Court apparently had other ideas.

While Congress cannot under the Constitution pass a retroactive law to stop the filing of suits under this Supreme Court decision, there is one thing they can do and that is, they can **take all of the profit out of filing suits**—my amendment to the Internal Revenue Code will do that because it levies a 100% income tax on whatever the unions may recover.

My second Amendment, which is to the Internal Revenue Code, reads as follows:

"H. R. 71, Amendment intended to be proposed by Mr. O'Daniel to the bill (H. R. 71) to amend the Internal Revenue Code, Act of Feb. 10, 1939, viz: At the end of the bill insert the following new sections:

"Sec. ( ). The Internal Revenue Code is amended by adding after section 15 the following new section:

Sec. 16 Tax on Unjust Enrichment.

"(a) **Imposition of Tax**—There shall be levied, collected, and paid for each taxable year upon the windfall income of every individual a tax of 100% of the amount of his windfall income.

"(b) **Windfall Income**—For the purpose of this chapter, the term 'windfall income' means amounts received by any individual during the taxable year as wages, penalties, or other damages (actual, liquidated, or exemplary) under an order of a court of competent jurisdiction in accordance with the provisions of the Fair Labor Standards Act of 1938, if liability for the payment of such amounts would not have been incurred had section 7 (e) of such Act been in effect on and after the effective date of such Act.

"Sec. ( ). The Internal Revenue Code is amended by adding after section 22 the following new section:

Sec. 22A. Additional Exclusion From Gross Income.

"'Amounts received during the taxable year as windfall income shall not be included in gross income.'

"Sec. ( ) The Internal Revenue Code is amended by adding after section 35 the following new section:

Sec. 36 Credit for Windfall Income Payments.

"'There shall be allowed as a credit against the tax, amounts paid during the taxable year as wages, penalties, or other damages (actual, liquidated, or exemplary) under an order of a court of competent jurisdiction in accordance with the provisions of the Fair Labor Standards Act of 1938, if liability for the payments of such amounts would not have been incurred had section 7 (e) of such act been in effect on and after the effective date of such Act.'

"Sec. ( ) The amendments to the Internal Revenue Code made by section ( ) to ( ) shall apply to taxable years commencing after Dec. 31, 1946."

This amendment also protects the employers by providing that if they are caught with one of these suits and judgment is rendered against them, they can apply what they have to pay to any income tax they owe in 1947 or that they may owe in subsequent years.

Of course, these portal-to-portal suits are just plain legalized highjacking. The CIO are simply using them as a club to hold over the head of industry to try to force industry to do what they want done in making the next contracts. The Supreme Court when it rendered its decision in the Mt. Clemens Pottery Company case opened up the floodgates for these damage suit lawyers and highjacking labor racketeers to file these suits. It is imperative for Congress to do something about it.

Congress cannot say that there is not anything they can do about it because if anyone will read subchapter D of chapter 2 of the Internal Revenue Code, especially sections 700 to 706 inclusive, it is obvious that Congress has exercised and the courts have sustained its right to recover money collected by persons where no service was rendered. This is a method they adopted when the Supreme Court declared the Agricultural Adjustment Act unconstitutional and it forced the processors to either return the processing taxes they had collected from their customers or to pay a tax to the Federal Government which would put back in the Treasury the amounts they had collected. So there is a precedent already established for levying this kind of a tax and just common equity requires that if an employer is forced by judgment of court to pay out hundreds of thousands of dollars or millions, he should be allowed credit for this judgment against any tax he might have accruing in the future.

In other words, Mr. Chairman, my amendment to S. 70 amends the Fair Labor Practice Act so that there will be no grounds for portal-to-portal suits on work not performed after the date of its enactment and my amendment to the Internal Revenue Code provides that if the union gets a judgment you take it away from them by taxation and put the money in the Treasury. Then it also provides that you reimburse the employer who had to pay the judgment by allowing him to have credit on his income tax.

I certainly trust that both of my amendments will be adopted promptly.

New York Stock Exchange Weekly Firm Changes

The New York Stock Exchange has announced the following firm changes:

Transfer of the Exchange membership of the late Milton J. Beirne to Edmund A. Rennolds, Jr. will be considered by the Exchange on Feb. 6. Mr. Rennolds will continue as a partner in Branch & Co.

Elmer G. Samish will withdraw from limited partnership in Friedman, Brokaw & Samish on Jan. 31.

Francis B. Gilbert will retire from partnership in Clinton Gilbert & Co. on Jan. 31.

Walter G. de Berg, general partner in Halladay & Co. will become a limited partner, effective Feb. 1.

Sergius Klotz will retire from partnership in Charles Slaughter & Co. on Jan. 31.

Now McKee & Jaeckels Inc.

APPLETON, WIS.—McKee & Jaeckels, Zuelke Building, is now doing business as a corporation. Officers are Carl S. McKee, President; Gertrude W. McKee, Vice-President; and John N. Jaeckels, Secretary-Treasurer.

Economic Outlook for 1947

(Continued from page 596)

our economy. We have lived through our booms and busts. We have learned that the day of reckoning may be delayed by one scheme or another; but it will come. We may employ consumer credits, or foreign investment, or even public works financed by public debt; but our basic economic imbalance will take its toll. Our economy demands a total of money expenditures which will keep production going. It must be equal to the output of industry. It does not work when there is a gap.

Cannot Look With Confidence to the Future

Unfortunately, we cannot look forward with any confidence to the future. Most significant, prices have been pushed to exorbitant levels. Industries which had few conversion problems enjoyed luscious profits through the generous OPA margins which reflected prewar mark-ups and exploited the shortages when the OPA was repealed to push their prices up to unjustifiable levels. Industries which had conversion problems demanded profits on their low volume of output and have maintained these exorbitant prices when volume increased. They forgot that the government had underwritten their operations by carry-back provisions and the repeal of the excess profits tax. They were going to cash in on the opportunity rather than gamble on the cushions afforded by government. They were too long steeped in the prewar practices of low break-even points. They knew that it was safest to price, as the steel industry had done, at 43% of capacity, and the automobile at 57%. They were thereby protected against depressions. The WPB reported in May 1945 that durable consumer goods industries were reconverting at prices which would assure a 52% break-even level. They were going to sell America short to protect themselves against all recessions. They defied the government and labor when the latter demanded that the break-even points of American industry should be raised to levels which will assure low prices, high wages and high volume. Everybody agreed that high break-even points were a prerequisite to industrial prosperity and full employment, but American industry would not take the chance. They priced for the depression.

This pricing policy still prevails. It is our most serious challenge. There is no evidence that it is likely to change for industrial products. The first indications of a downward spiral in food prices resulted in conspiracies by milk producers, the dumping potatoes and the invocation of the guarantees of 90% of crop prices. The drop in raw cotton prices has been accompanied by price increases for grey goods, prices from 25 to 60% over OPA levels. The price increases, it is suggested by many producers, are necessary to help them weed out their marginal customers.

Increased productivity is not being shared through lower prices. The government paid for the wartime expansion of industry through building plants and by accepting accelerated depreciation. These have reduced costs. Have we witnessed price reductions in these industries?

Profits Excessive

What faith can we have in this economy to adjust itself automatically at a level of full employment, when profits continue to be earned at the rate of $25 billion in the fourth quarter or $20 billion according to the President of the United States for the full year 1946? Are not the inequalities of income resulting from such a highly inflated corporate income level likely to be the materials fro an explosive collapse?

Foreign loans, expanding governmental expenditures, expanding consumer credit were the factors which delayed economic collapse during the 20's. We must employ more successful techniques during the forties and fifties in face of the great challenges from abroad and the reliance which the world is placing upon our cooperation and assistance.

The large business monopolies have a great grip on our country They have greatly strengthened their hold during and since the war. The large corporations got the war contracts; they operated most of the government owned facilities; they enjoyed the greatest share of money spent for scientific research. Since the war they have bought up the smaller corporations for attractive prices Their grip has been tightened. We know that they never have enjoyed engaging in free competition. They practiced price leadership; price understanding; market arrangements; and the multitude of other private and secret understandings which abuse noblesse oblige among producers. Price cutting is not engaged in. They have a stranglehold on our plants, our capital, our resources and our political power. They control the National Association of Manufacturers, its pronouncements and policies.

No Labor Monopoly

It is they who are distorting the tale on monopoly. They are trying to get the public to believe that there is a labor monopoly. They are abusing language and diverting attention. Labor organization used to be called a conspiracy. But we soon learned that free men have a right to bargain for their terms of employment. Free men organized in a union still have that right. The use of that right cannot be a monopoly. They bargain with only one article, namely their free labor. The monopolists are holding up the country with high prices, restrictive trade practices, low production levels and are withholding raw materials, plant and capital which they own, not as truly free agents, but only as trustees for the American people who demand optimum use.

True, labor bargains in larger units. It is true because management has built larger plants. It bargains with larger corporations; because management has developed larger corporations. It bargains with larger industries; because they have grown. True the stakes are great to the workers, management and the public. But the employers offer only a code of anarchic relations between labor and management as represented by the last NAM labor code. They plead for restrictions on labor organizations so that they will be less able to bargain. They are not interested in securing equality because they now enjoy superiority. They are determined to get greater superiority and devitalize the unions through restriction, bleed them through litigation, and frustrate them through greater internal conflict.

Opposes Decentralization of Collective Bargaining

The essential issues remain. We must bargain to secure a better balance in the distribution of our income which would insure continued markets for goods. That means incomes ready to buy the total American output. The decentralization of the collective bargaining process to the individual employer units can spell only tension and conflict. They will await the development of patterns for guidance. Industry-wide collective bargaining has produced stabilizing effects in practically all industries where it has been practiced. Moreover every industry observes some degree of wage leadership even where there is no industry-wide agreement. The agreement with the United States Steel sets the pattern for the steel industry; the understanding with the American Woolen Co. sets the pattern for the woolen industry; General Motors for the automobile industry; the Big Four for the rubber industry; Burlington Mills and Cannon Mills for the cotton and rayon weaving industries; the American Viscose Company for the synthetic yarn industry; and DuPont for the chemical industry.

But the issues are no longer restricted to the individual industries. The demarcations are quickly fading. The industries are merging. Individual corporations such as General Motors also set the pattern for the automobile parts and its kindred industries. These project into the entire metal group. Dominant plants in these industries set the patterns for local industries. The wage levels of these industries provide a point of reference to completely local plants. We are now integrated. The War Labor Board crystallized this movement. The post-war economy must recognize it as a fact.

We must establish voluntary machinery for guiding the development of the level of American wages. This is not compulsion. A set of patterns will allow individual plants, industries and localities to measure their own wage adjustments. Such patterns can be evolved through free national collective bargaining. The councils can also help evolve agreements for such significant issues as methods of distributing the gains of productivity; the minimum wage rates; and other controversial issues. Principles voluntarily developed by our leading employers and unions through discussion provide the most hopeful solution for our controversies.

The American middle class has a special responsibility during this moment of stress. It is the thinking part of our community. It is not under the stress of the vanishing bread basket. It knows the value of full employment at high levels of income. Yet it has not acted freely. It has not found itself in the new era of high organization of management and increasing organization of labor. It is still being whipsawed by large business. It still obligingly assents to the rulings of the NAM.

The middle class has been the bulwark of American liberalism. It must reassert its position. It must find the tenets of its new position. It is founded on the worship of the principle of individual freedom; enterprise; and the protection of private property and individual rights. It is now however serving the cause of big business. Its temporary profits, its opportunities to enjoy speculative profits, to overcharge, to raise its prices, to enjoy high volume has deprived it of its own faculties for self-criticism and its ability to test the functoning of our society.

The American middle class has a responsibility to find a definition of its own place. It must build its philosophy on the recognition that personal freedom is gained by individuals only through economic security, full employment, high income and membership in economic groups which participate in the development of publicly significant.

Air Transportation Outlook

(Continued from page 595)

but because of shortage of manpower. Government contracts for special services for flying and certain phases of manufacturing gave further spread of an already abnormally low overhead cost. In addition, many fully depreciated airplanes were in use. Wage stabilization prevented wage adjustments which were justified and this had further effect on low operating costs. These conditions were the most perfect that could ever be expected to produce airline profits—but they were abnormal in every respect. There will never be another repetition of those conditions except in case of war which none of us ever wants.

During this entire period, I am sure we will all agree that the airlines rendered the most outstanding service in flight and on the ground that was being offered in the entire transportation field. It was a main subject of conversation among experienced travelers. But by reason of the restriction of airline space by military priorities, many who would like to have traveled by air during the war years could not get seats.

Misinterpretation

As is frequently the case during such abnormal periods, particularly when they are periods of success, people lose their sense of judgment. They fail to analyze current conditions, although if one wanted to take time to view the circumstances objectively, it was fairly easy to see that everything was abnormal and that the existing situation could by no means be used as a measuring stick for the future.

It is not difficult for outsiders to reach wrong conclusions about the airline business, particularly those who do not have any responsibility for the success of the airlines. However, during the war period many of the operators themselves further encouraged the public impression of an unlimited airline future by their own optimism. In addition, the Civil Aeronautics Board, by statute charged with the responsibility for developing a sound and economical air transportation system, must also have permitted enthusiasm to outweigh better judgment. Otherwise, I believe the Board would have been more conservative in some of the decisions made during this period.

We in United Air Lines who were trying to guide the future of our company along sound and constructive lines recognized that the trend being followed was not as conservative as it should be. However, our views were cast aside lightly as coming from people who have no faith in the airlines' future. Actually, it was not a case of lack of faith. Our views were influenced by real confidence in the future of our business. Because of its great future we wanted to see that airlines progress was kept on a sound foundation.

Immediate Postwar Conditions

The honeymoon ended on V-J Day.

First, the psychology of the traveling public changed overnight. The public considered that the end of war automatically brought the end of inconveniences. The tolerance of people to wartime conditions evaporated overnight.

Although demand for travel was greater than at any time during the war, all transportation restrictions were removed and priorities eliminated. This resulted in the airlines facing the necessity overnight to handle an uncontrolled demand for air travel. Everything had to be done at once.

We had one advantage from which to start; it was our good fortune to have a strong pilot and mechanical personnel to assure a high standard of safety. No airline would have undertaken this rapid expansion had it not been for that fact.

Additional airplanes had to be acquired. New airplanes had been on order for years, but we couldn't wait the necessary two years for the airplane factories to stop military production and build our new planes before we made any effort to break the bottleneck. The only immediate source of supply was from war surplus, and from that source we acquired four-engined transport airplanes. It was necessary practically to rebuild all airplanes received from war surplus at a cost almost equalling the prices we were paying for new airplanes of the very same types prior to the war. Because of the new postwar airplanes on order and to be deliverd within 18 months to two years after surplus planes were put in service, it was only natural that their periods of usefulness would be extremely limited.

Meanwhile, a three-fold expansion of personnel was necessary. Thorough training was given all new employees and the cost was extremely heavy because our new employees were like the new employees in other industries. They were not too sure just what they wanted to do, and the resulting turnover ran as high as 4% a month.

Our employees are human beings, and like all others, they relaxed slightly from the strain of war pressure.

It was impossible to obtain working space overnight for these new employees. It was necessary to double up in quarters that were inadequate in 1941, when the onset of the war froze the expansion of plant facilities. Additional telephone equipment could not be supplied immediately. Although several million dollars of new construction work was contracted for a year ago, because of shortage of materials and manpower, no complete new facility is yet available.

The industry now has about 600 planes with 16,000 seats compared to a prewar high of 359 planes with 6,734 seats, and a wartime low of 176 planes and 3,416 seats. With few exceptions, 1941 facilities, which were hardly adequate for handling the volume of traffic five years ago, are all we have to work with today.

These circumstances combined to result in poor service to the public. Inaccurate information about the problem and a lack of knowledge of the companies and their philosophies brought forward many complaints even from our older and patient patrons. In addition, it became quite popular to write articles on what was wrong with the airlines, in spite of the fact that any of us could walk into almost any business organization and find the same problem created by the combinations of postwar conversion, material and labor difficulties, and excess of demand over supply. I feel that although what was said was true, it was unfair that we in the airlines business were expected to be the only Houdinis in business generally.

Considering all these problems, I feel confident from my own experience and observations in other fields that the airlines have done and are doing an outstanding job in the face of these difficulties. The fact is that by the close of 1946 the airlines were flying almost three times as many seats as during 1941.

Postwar Cost of Operation

Airline employees were underpaid prior to and during the war. Wage stabilization prevented adjustment. One of the first actions was to increase salaries and wages, particularly in the lower wage groups. Termination of government contracts threw the full burden of overhead on commercial operations. New airplanes have reintroduced the item of heavy depreciation as a cost of operation. Inefficiency of newer employees, of whom 50% have been in the airline business less than one year, coupled with inadequate working facilities, have resulted in an efficiency of only 70% of that obtained in normal times.

These are some of the factors affecting costs. This is a period of adjustment over that of wartime and is reflected in the unit cost of operation.

Now we must consider the factor of revenues. The bottleneck in travel was broken shortly after Labor Day. The demand is now more in line with supply. I wouldn't say that the demand has been exhausted, but irregularity of operation has again brought about seasonal fluctuations. The present average airline capacity is approximately 74%, while the breakeven point during this conversion period is approximately 80%. Increases in passenger fares or in mail rates or in both are inevitable. United Air Lines is delaying its action on application for such adjustments because we recognize that fares will have much to do with attracting new business, and whatever increase we recommend will be the very minimum in the face of conditions.

Today we know that there are certain inefficiencies and expense items within our control which should be corrected before we penalize the public and ourselves. I mention the possibility of penalizing ourselves because I feel it is a very important point. If we should charge our way, regardless of merit, to a more profitable operation, the management of our company will become satisfied with wartime and present-day inefficiences as a new standard for the future. I say that we will only settle for the prewar standard of efficiency as our goal from which to work, and we will not be satisfied with less.

Expansion

False optimism has caused some illogical expansion. False enthusiasm has caused unrealistic forecasts of the volume of business to be forthcoming in the immediate future. These forecasts range from ten and one-half billion passenger miles in 1949, which happens to be the one in which our company agrees, to an extremely optimistic forecast of twenty-five billion passenger-miles. The 1946 volume is estimated to have been approximately six billion passenger-miles. When we order new airplanes, we must start estimating our requirements from our own forecast of the volume of business. Therefore, we find that the number of new airplanes ordered by the different airlines differs as widely as the forecasts of the various companies.

Eventually the new airplanes will be put to maximum use, but we prefer to make commitments for capital expenditures only for a reasonable period in advance. The carrying charges for surplus airplanes may prove to be expensive.

The wide difference of opinion among airlines on future volume of business has influenced materially their expansion ideas. We can only judge the wisdom of some of the expansion which has taken place by the financial condition and the credit standing of the different companies in different categories. I am certain that some are having a rude awakening as they look at their balance sheets and seek necessary financing to carry out their earlier dreams.

Expansions which certain airlines sought are not working too well in all instances. This emphasizes the danger of aggressive expansion under abnormal conditions. It is true the airlines initiated all but foreign expansion and furthermore that no expansion has been forced on any carrier; nevertheless, the Civil Aeronautics Board, which I again emphasize is charged with the responsibility of establishing a sound and economical transportation system, approved all expansion and, therefore, must share with those of us in airline management the weaknesses in the end result.

Smaller carriers were constantly making the plea that they could never be a success unless they were made larger. The assumption was automatic that if they became larger they would become stronger. Things do not necessarily work out that way. Those airlines could not be made any larger or any stronger than the population they serve would justify without subsidy.

There is no disgrace in subsidy to an airline serving a territory that needs service but yet is not sufficiently populated to permit the airline to be self-supporting. However, in certain cases, the course was taken to expand smaller companies into more heavily populated areas in competition with companies that were inherently larger because of the territory they served. All airlines can't serve the same territory without complete duplication. Some of them must be satisfied to be small and successful.

It seems obvious that the airlines having the greatest difficulty today are those which were expanded with the idea of making them bigger and stronger, and instead, it looks as though they may have been made weaker.

The big question now is: are we going to look at our own mistakes and go back and correct them, or are we going to continue to ask the Civil Aeronautics Board to give us something else we think we may want which may possibly remedy earlier mistakes? This might only be a case of piling mistake on mistake and lead to final chaos in the industry.

Day of Reckoning

The period we are now passing through is a day of reckoning. False impressions were created by war operation, including the mistaken idea that we could expect unreserved public acceptance before we could complete perfection of our product. We can look at this experience, in a way, as a most fortunate occurrence. The public can be assured that airline management will be more realistic in considering the immediate problems and in correcting the mistakes of the past. This is where the commercial and investment banker is performing an outstanding service. It has been made known to many in the business that there is no interest in making loans or providing additional capital until illogical decisions of the past have been corrected.

It is fortunate that any weaknesses in our business became obvious before we went too far in financing our future program.

I believe that two years ago any airline could have gotten practically what it asked for in new capital or loans. Corrections would not then be in process as they are now. We might have seen bankruptcy in a relatively new business, which would have served as a permanent stigma. Instead, there is now the opportunity to make some adjustments and start off on a sound basis, assuring investors and lenders of a constructive and conservative program during the next few years. If the commercial and investment bankers are strict enough in their conclusions, there is no question in my mind in regard to the future financial success of this business.

Many airlines have already done their financing. Their problems are not serious. One that was causing the public some concern during the past few weeks appears to be working out to a satisfactory conclusion for all parties concerned.

Some of us who have been delayed in our financing may find that money may be slightly more expensive to obtain, but that penalty is justified if we can be assured that some bad habits have been shaken out of the business.

The Future

The basic difference of opinion between the conservatives and the enthusiasts in no way involves the extent of ultimate future of air transportation. The difference is strictly in the matter of timing.

I believe that regardless of the potential market, the product must be right. Today the public wants safety above all. They do want dependability of schedule performance and regularity of service, but when we advise them that at this stage of development we cannot offer that regularity and still be consistent with safety, they are satisfied.

Now, why am I so optimistic concerning the ultimate future of air transportation? It is because now, as a result of wartime development, we are getting the specific facilities which offer for the first time a potential regularity and dependability of service regardless of weather that will compare with surface transportation. The inability to fly at very high altitudes, with fuel supply to deviate substantially from bad weather areas, now causes cancellation of flights when unfavorable weather conditions develop en route.

Postwar airplanes are being delivered today with pressure cabins that will permit airplanes to fly at high altitudes over bad weather areas and yet will insure complete comfort to crew and passengers. Heat type anti-icers, advanced by the necessity of ferrying planes across the North Atlantic during the war, will make possible safe flying through icing conditions. Long-range gasoline supplies will permit deviations around storm areas.

Cancellation of flights at terminals results from low ceilings and inadequate visibility. The human pilot can do an excellent job in bringing an airplane down to a general airport location with accuracy. However, he does require proper ceiling and visibility to make final observations during his approach for final landing. Today the development of the automatic landing pilot, identified by the layman as the electronic pilot, will permit the entirely automatic landing of an airplane.

Mechanical devices need checks and double-checks. The ground control approach system, a type of radar, will permit observation of the plane by monitors on the ground to avoid any discrepancy in course which might result from maladjustment of a mechanical device. In addition, there is the opportunity for the installation of radar on the ground for general observation of all airplanes in any particular sector. Finally, with airborne radar in the airplane itself, there is the opportunity for the pilot to make ground observations through overcasts.

These are not speculative possibilities. They represent the major contribution from all the technical development forced by war. But no airline is going to start to use all this equipment immediately. There will come first the training, instalation of proper ground equipment, and an adequate test period of flying present weather minimums with the mechanical devices to insure their reliability.

These devices, which are being installed on airplanes on which we are now receiving delivery, can be a reality and in routine operation in not more than three years if the preliminary steps are taken properly. Meantime, they will make their contribution to greater safety and regularity under present conditions, but their full effectiveness will be felt in from three to five years.

Construction of ground facilities is moving much faster. We hope that by the mid-summer much of hangars, buildings and other plant facilities will have been completed and in use. Airport construction and improvement has been decided upon in practically every strategic city in the United States. All this work is on the move.

One other thing we will do immediately will be the establishment of more practical schedules, planned for the maximum convenience of the traveler. We must sacrifice some utility of equipment to give better service. For example, adequate reserve airplanes must be stationed at points to minimize delays which might arise from minor mechanical difficulties. Instead of basing airplane schedules on the maximum cruising speed of the airplane, we will set schedules so that the pilot will have the opportunity to make up lost time by a more flexible use of reserve power.

If the airlines themselves will benefit from the lessons of this past period and be more conservative in their future expansion and show a little patience in waiting for increased volume to justify such expansion, I would say that this industry is "over the hump." We have all learned valuable lessons and we are making use of them.

A business which makes possible shrinking the United States and the rest of the world to a fraction of the distances measured in past relationships and which will therefore have a profound effect on the social and economic habits of all people, wherever they may be, cannot fail to flourish.

We are just passing through a shakedown period. Rather than viewing this period with pessimism, I look upon it as an experience that will make air transportation stronger and greater than any of our earlier expectations.

Current Prosperity Is Normal

(Continued from first page)

industry. Manufacturers in general are sanguine. Merchants and financial men are uneasy, and some are badly frightened. Certainly it is difficult to envisage a depression as long as full output by our heavy industries is maintained. This has never occurred in our economic history.

Almost one third of our national income is being extracted from the public and spent by government. Services rendered by government are not worth this cost. Prosperity cannot endure when so great a proportion of our working force is employed on non-productive or quasi-productive work, at the expense of the remainder of our population, and when taxes are imposed by government to pay for services which the taxpayer does not want or cannot afford.

President Truman's proposals for federal expenditures during the fiscal year 1947-48 were actually greater than those for the present fiscal year. They aggregated some 38% of peak costs during the war, whereas federal expenditures for the third year after the first world war were only 19% of peak disbursements. Yet the Republican Congress is merely making gestures toward cutting the Federal Government down to appropriate size and relieving taxpayers from the present crushing load. This is one of the major reasons for present hesitation in business. Profligate spending by government has become so ingrained that possibly depression or runaway inflation or both must be endured before this country learns that wasteful government expenditures create poverty, not purchasing power.

Outlook for Interest Rates

No significant change is likely to occur in the interest structure during 1947. Short term rates might be somewhat firmer, but yields on long term bonds of good quality, including governments, give no indication of rising much above the historical lows which have recently prevailed.

Commercial loans increased rapidly during 1946. This was largely due to unbalanced inventories and to rapidly rising commodity prices. Similar conditions are not likely to prevail in equal degree during 1947. No substantial increase in commercial loans is expected, and total commercial loans at the close of 1947 may well be lower than those of the previous years.

National savings have declined by more than one-half from the abnormal annual level of some $40 billion during the war. Probably savings may fall somewhat further and may stabilize around the $15 billion mark. At such level there would be difficulty in fully financing the requirements of an expanding economy. Even at present available funds for new issues do not encourage equity financing or sale of medium-grade obligations to the public. Instead of being concerned about over-saving, it can be questioned whether the present rate of savings will support permanent prosperity.

Purchasing power is a concept which readily lends itself to misunderstanding. Many persons apparently believe that expenditures for direct consumption are more important in sustaining the economy than other types of expenditures. Financial history demonstrates that prosperity is attained and continues only when capital goods are in vigorous demand. Profits are as important as wages in a healthy economy, and there is no more evidence that profits are hoarded than is the case with wages. Each of these elements of national income results in demand for goods and services, and each type of demand is equally essential.

High Consumer Demand Constant

Over a long period of years retail sales have constituted about 56% of national income. That relationship prevails today. In fact retail sales are now slightly higher than 53% of national income. Hence there is no evidence that consumer demand is failing to keep pace with current income payments. Neither is there any support for the thesis that wage advances are necessary if depression is to be avoided.

Stock Market Not High

Historically, stock prices are at present high. Only in the late 20's, in 1936-37 and in 1946 have they been higher than those which now prevail. However, they are not particularly high in relation to current industrial earnings, the volume of industrial output, or the present levels of outstanding currency, demand deposits and securities readily convertible into cash. Finally, the market has thus far been uninfluenced by the November elections. If the Republican legislature reverses New Deal policies of heavy federal taxes, pervasive controls and punitive administrative practices, then the outlook would be favorable for sustained employment, improved efficiency, moderately declining commodity prices and corporate profits which will reflect a high level of industrial production. In such case the present position of the stock market could not be considered as dangerously high.

Price Drop Probable, Says Commerce Dept. Official

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which has occurred since June 1946 has resulted in a greatly distorted price structure with the result that many prices have risen in excessive amounts while many others have recorded little or no change."

Mr. Paradiso cited three factors which he said indicated that a readjustment of the price structure might soon be in order.

Factors For Readjustment

1. While consumer expenditures are now in line with disposable incomes, on the basis of the prewar relationships, consumers are spending a larger proportion of their incomes on nondurable goods and this has contributed to the boosting of prices of such commodities as food and clothing. As more durables become available the pressure of demands for nondurables will lesson with the result that prices will tend to soften in this segment of the economy.

2. The recent high rate of inventory accumulation amounting to about $1 billion per month has resulted in a channeling of about 8% of the output of goods into inventories. Thus, the flow of finished goods to consumers during the reconversion period has been low in relation to total production and to incomes received. This rate of inventory accumulation cannot go on indefinitely. As total production increases many producers will be able to achieve a balance in their aggregate inventories and will curtail their demands for goods for further inventory building. At the same time the ratio of finished goods to total goods produced will increase.

3. Production of many goods has been extremely low in relation to demand. Increased output is expected in many lines this year. There is evidence that productivity per worker is on the increase in many plants. This should permit lower costs to producers which in turn would allow many cases a reduction in prices without impairing profits.

"Because of the distorted pattern of consumer buying in the past year and the large demands stemming from inventory needs, the price structure is now out of balance," Mr. Paradiso said.

Price Structure Out of Balance

Three developments were cited by Mr. Paradiso in support of this.

1. Many commodities were in relatively short supply and prices of these items increased very sharply—some by more than 100% in the 6 months period from June, 1946 to December, 1946. In many cases this is a temporary situation and prices will decline as more supplies become available.

2. From 1921 to the middle of 1946, a period of about 25 years, wholesale prices of major groups of commodities have shown a close degree of correlation with the movement occurring at differential rates. For example, a 10 point increase in the general wholesale price index (1926=100) has been associated on the average with an increase of 5 points in the average prices of iron and steel, with 8 points in the average price of dairy products, 14 points in the average price of cotton goods. Similar relationships can be worked out for other commodities.

The prices of the following groups of commodities are at present apparently high when considered in perspective with the long term relationship existing between the movement of these prices and the general level of all prices; Meats and dairy products, approximately 25% above the relationship; cotton goods 10% above; paint and paint materials and lumber, 25% above; brick and tile and cement, 10% above; leather and shoes, 15% above; drugs and pharmaceuticals and fats and oils, 20% above. In contrast, the average price of only two major groups of commodities, petroleum products and woolen and worsted goods, are now significantly below the long-term past relation of these prices to the general price level. Petroleum products are about 25% below and woolen and worsted goods are 20% below. Other groups which are slightly below the relationship are iron and steel, non-ferrous metals, plumbing and heating equipment. The remaining groups of commodities are in general in line with the relationship.

3. An analysis of the wholesale price changes of 600 commodities in the period from June, 1946 to Nov. 30, 1946 shows that the prices of the inflexible commodities increased on the average by 10%; commodities not clearly flexible or inflexible increased on the average by 20% and the flexible increased on an average of 35%. Flexible prices are those which recorded a relatively large number of monthly changes in a given long period of years while the inflexible prices recorded a relatively small number of changes. In general, flexible prices are market-dominated while the inflexible prices are more or less administered. In relation to the position of these groups of prices in the period of 1926-29, when they were in approximate balance, the recent price movement of the flexible prices away from the inflexible has represented a distortion from the 1926-29 balance.

Sustained Business Ahead Over Long Term

Thus it appears from these developments that the pressures will be for a readjustment of prices this year which should bring the price-cost relationships into better balance. However, the basic demands of both consumers and producers will still remain strong. Demands for many goods such as automobiles, houses and other hard goods will not have been entirely met by the end of the year. It is expected that after the readjustments in prices, costs, inventories, and the consumer spending pattern have taken place, the basic demands will become reactiviated and provide the basis of sustained business volume for an extended period.

International vs. Domestic Money

(Continued from page 599)

intended to apply to world-wide disequilibria associated with the phases of the international business cycle. The classical analysis, moreover, was greatly distorted in the 1920's by the famous "rules of the game" school of monetary and central banking advisers.[1]

In the case of cyclical worldwide disturbances in balance of payments, the result of both the standard automatism and the "rules of the game" policies was to ensure the propagation of the cycle from the centers of cyclical disturbances to outlying geographical areas. In doing so, they accentuated, rather than corrected, the intensity of cyclical fluctuations the world over.

Facts proved stronger than theories and most nations finally threw orthodoxy to the winds, and embarked instead upon compensatory monetary policies, behind the protective wall of currency devaluation and of exchange or trade controls. These measures, hastily devised, and with purely nationalistic objectives and criteria of administration, were often internationally harmful and mutually self-defeating. They have, however, enriched the apparatus through which monetary policy can be made effective. The situation calls for exorcism rather than for excommunication. The new weapons should not be scrapped indiscriminately — an objective on which general agreement would, anyway, be impossible— but harmonized and integrated, through international consultation, into the implementation of internationally defined monetary objectives. This would increase their national effectiveness, as well as ensure their international usefulness.

Objectives of International Monetary Fund

Progress along this path will be made incomparably easier by the creation of the International Monetary Fund. The Fund quotas will decrease the need for, and offer an alternative to, national restrictions on exchange transactions. The quotas, however, may be insufficient to maintain free and stable exchange in cases of acute disequilibria in the balances of payments. In this case, international consultation will help select the measures most appropriate to the situation. Fundamental disequilibria cannot be corrected through exchange control measures, but call for lasting measures of readjustment, one of which may be a modification of the currency's par value. On the other hand, changes in parity would generally be inadvisable as a remedy for temporary disequilibria, since they would actually disturb the international balance of prices and costs, once the temporary factors have ceased to act. As a measure of last resort, non-discriminatory controls may then prove the lesser evil, from the international as well as from the domestic viewpoint.

The task of the Fund will precisely be to examine these and other alternatives in order to reach agreement, in each concrete case, as to the most suitable policies, the extent to which action must go, and the ways to minimize harmful effects on other countries. The Fund's philosophy should not be frozen, especially at this early stage, into the rigid, ready-made, formulas, which have so often contributed to the sterility of previous efforts at international economic collaboration and organization. The infinite diversity of regional and other conditions which shape up a country's problem should be fully recognized. On the other hand, the imposition of exchange controls, changes in parity and other similar measures deeply affect the economy of other countries and are of vital concern to the international community as well as to the particular country which seeks their adoption. International monetary order cannot be achieved by a return to gold standard ideals of international *laissez-faire*. It implies positive action and policy, but, as distinct from the 1930's, through international cooperation rather through international anarchy.

1 I cannot elaborate or substantiate these statements here, and must refer the reader to my forthcoming paper "National Central Banking and the International Economy" in *The United States in World Trade and Finance* (No. 7 of the series *Postwar Economic Studies*), Board of Governors of the Federal Reserve System.

Public Debt and Social Institutions

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vestment, all designed, wisely or unwisely, to accomplish the family's ends.

Upon these decisions the mass of contracts called the public debt and the induced inhibitions exercise now, and may in future exercise even more greatly, significant influence. That influence, small or great as it may be, constitutes pressure for a passing on, a transference, to other institutions of society, of some responsibilities, or parts of responsibilities now and hitherto lodged with the family. Currently most striking is the further transference to the business organization and the state of the responsibility for necessary financial liquidity. But other responsibilities being more or less rapidly passed on to other institutions, at least partly due to the debt and the resulting inhibitions, include provision for personal catastrophe, credit-worthiness to assure reasonable financial flexibility (a term, incidentally, being more and more made synonymous with need), maximization of income, provision of education and training and investment of savings and the resulting administration of investment.

In all of these instances—and study will doubtless reveal others—the mass of contracts, and the resulting inhibitions, are influential. Sometimes they accentuate other influences, sometimes they counter others, sometimes they are alone. But I believe they can be stated as positive, even without the necessity to rely upon that professional perihelion of unreality "other things being equal."

In essence, the influence of the debt is toward further defunctionalization of the institution of the family.

The second of the four institutions identified by Mr. Warren is the church. Leaving aside the spiritual, the basic temporal functions of the church are education and charity. Upon these functions the debt appears to be exercising substantial influence from two sides: the church's means to perform the responsibilities are shrinking, and the demands upon it are being reduced as the family transfers them to the business organization and the state. The result is that the church is being further defunctionalized as to temporal activities; it is for others to say whether its spiritual function will be affected by this development.

Business organization, Mr. Warren's third institution, contains three functions: eleemosynary, productive, and claim administrative. These functions are sometimes mixed in the same corporation or association, sometimes not. But whether or not mixed in organization units, the debt has a marked influence.

The eleemosynary function is in the same present and future position as the temporal functions of the church, and the influence of the debt appears identical. Some remarks of Dr. Vannevar Bush are illustrative of this group: ". . . during the past 10 years the amount of new endowment to medical schools has great diminished. At the same time the income from present endowment has been cut by one third . . . Another source of research funds is the foundations, but, as in the case of the universities, the income from foundation endowment is decreasing."

From the productive function of business organization, as from the family, certain responsibilities are being, in part or in whole, passed on, under the influence of the debt. These include the responsibility for liquidity; the responsibility, or type, of employee compensation; determination of the rate earned on invested capital; and the pricing of products. Clearly, if the transfer of the responsibilities proceeds beyond a certain point—and some believe we are already near that point—the responsibility for the volume of private production, distribution, and employment itself will have passed on from the production function as initiative is diminished by rising evaluation of risk and falling expectation of profit. In essence, as in the case of the family, the church and the eleemosynary organization, the effect of the mass of contracts called the debt, and the inhibitions induced by it, is the further defunctionalization of the productive function of business organization.

The claim administration function of the business institution encompasses what are usually called financial institutions, together with the large financial activities within the production function organization, and together with labor unions, farmer and veteran groups, which in essence are organizations dealing with past, present and future financial claims of their members. This claim administration function is the destination of many of the responsibilities being transferred from the family, the production function and to a degree from the church and eleemosynary organizations: parts of their responsibilities for financial liquidity, provision for personal catastrophe, creditworthiness, maximization of income, investment and investment administration, education and training and charity, employee compensation, determination of rate earned on invested capital, and pricing of goods and services.

The influence of the debt upon these claim administration groups, however, is the same as the other functions which we have examined: the responsibilities are being passed on, in this case, to the state. Both the responsibilities passed to claim administration from other groups, and as well those heretofore regarded as its own, are being passed on. Indeed, in many respects, the process of transfer is even further advanced and more comprehensive in the claim administration function than in any of the other institutions. For there has passed, or is rapidly passing to the state, the responsibility for the cost of service, the rate of return, the liquidity, the nature and administration of assets, the scope of function—virtually every key responsibility, both in domestic and as well in the international sphere. As Miles Colean has recently succinctly stated it: "One thing is evident. The financial institutions and the monetary system are going to have to live with government in an association that makes their past intimacies appear Platonic."

Indeed, it would not be difficult to argue that, conceptually, the claim administration organizations are within the institution of the state instead of within the institution of business organization. I am not yet ready to go so far, though the direction of movement is inescapably apparent: I should rather interpret the development as an extension of business organization some distance into the area which many wish the state to occupy and which it does occupy in other places and at other times. In any event, as in the other institutions and functions, a process of defunctionalization—or, if you prefer, refunctionalization—is occurring as the result of the mass of contracts called the debt, and the inhibitions resulting from it.

The point about these three institutions—the family, the church and the business organization—which constitute what is usually referred to as the private sector of society, can be summarized in the words of Elliott V. Bell, Superintendent of Banking in the State of New York: "The important thing is that a debt of this size inevitably compels government to intervene more and more in the economic system." I should only like to add the words of Sir Henry Clay regarding another era: "I myself now believe any return to pre 1914 conditions to be wildly improbable. I believe that the pre 1914 epoch, far from being normal, was a unique experience in the economic life of the race in historic times, a sort of golden age which no one now living will ever see again."

This might be amplified, regarding these three institutions, that nowadays the hands are still those of Esau, but the voice is increasingly Jacob's.

II.

Formally, the numerous responsibilities transferred or being transferred to the state from the family, the church and the business organization by the influence of the mass of contracts and the inhibitions they induce have passed or are passing to the Congress. So far the Congress has in no sense been indecisive as to what to do and the very essence of this thesis is that, since society wishes to, or must, pass on these functions, Congress is and will continue to be the instrument for the formal transfer to the administrative agencies of the state. If the thesis of this paper has any validity, the action of one party from the other in these regards will in essence differ less than the actions of Tweedledee and Tweedledum, for the thesis is that this mass of contracts called the debt and the resulting inhibitions are hard, enduring and irrevocable facts, from which pressures for certain consequences inevitably ensue:

The Moving Finger writes; and
 having writ,
Moves on; nor all your Piety
 nor Wit
 Shall lure it back to cancel
 half a line
Nor all your Tears wash out a
 Word of it.

In the broadest sense many of the executive agencies of the state will be involved in receipt of these responsibilities in one way and another. However, most of them perform only clerical or routine administration duties in relation to the responsibilities which are passing. Examples of such agencies are the Social Security Board, the National Labor Relations Board, the Department of Agriculture, the Reconstruction Finance Corporation, the Department of Labor, the Federal Housing Administration—the list could be extended. The passed responsibilities do not lodge with them, though they perform clerical and administrative services.

The agencies more squarely recipient of the responsibilities being passed on from the family, the chuch, the business organization and other government organizations are the Bureau of the Budget, the Federal Reserve System and the Treasury. Together or separately they determine the extent and the method of the exercise of the transferred responsibilities. Upon their decisions, their means and their techniques depend the degree to which the responsibilities will be discharged or defaulted. Upon their wisdom will depend the validity of the claims which are involved.

But yet, among these three, I believe the influence of the debt, causing a transference of functions—both of those received from the family, the church and the business organization and those previously lodged with these three government organizations — is operative. Perhaps it is operative with greater force and comprehensiveness than at any point yet examined. For the Budget Bureau, despite residence under the White House roof, despite the hopes of its founders and early directors, despite statutory provisions, despite a sometimes not unimportant advisory influence, despite the responsibilities nominally being passed to it, is essentially compelled by the debt, the inhibitions induced by it and the forces thereby generated, to pass on the ultimate responsibilities in large degree. And the Federal Reserve, despite an imposing facade, despite the intentions of its founders, despite literal provisions of statute, despite being nominally the recipient of many responsibilities passed on to it by the family, the church and the business institution, as well as by other government organizations, despite a sometimes not unimportant advisory influence, despite a collection of personnel of competence probably unequalled at any time or place, despite a well merited and very general regard widely and justly amounting to admiration, is essentially compelled by the debt, the inhibitions induced by it, and the forces thereby generated, to pass on the ultimate responsibilities in large degree. It now is but an effectuating agency, a complex mechanism, the impulses for whose every action arise elsewhere. In the volume entitled "Banking Studies," published by the Board of Governors in 1941, two explicit statements appear of the purposes for which the system was founded (pp. 25 and 233): excluding repetition, five purposes are listed: "better protection from over-expansion of credit"; "greater availability of bank reserves when necessary"; "a more elastic currency"; "better facilities for handling government funds without credit disturbance" and "a more effective supervision of banking in the United States." Four of these five functions have now essentially passed on to the Treasury, and the remaining one is essentially mechanical. Nor has it retained the large number of responsibilities since passed to it by other private or public institutions.

President Truman has stated the matter a little ambiguously but with a meaning crystal clear when he said: "The Treasury and the Federal Reserve System *will continue* their effective control of interest rates . . . Interest rates will be kept at present low levels through continued cooperation between the Treasury Department and the Federal Reserve System." (Italics mine.)

It is another of history's ironies that an organization whose establishment was widely opposed for fear it would come to possess too much power, has come instead, in less than four decades, to have almost none. The Treasury is not in fact one of the trinity, nor yet *primus inter pares*: The Treasury is the ultimate destination of all of the passing on, the transference—it, and it alone.

For the mass of contracts we call the debt is an imperious creation, an unitary thing. It controls the assets and the actions of the Federal Reserve just as of other financial organizations, and it determines the decisions of the Budget Bureau, not *vice versa*. Its requirements—as set forth in this paper, though not as more narrowly conceived—determine Federal Reserve policy, and not the reverse. And it has but one semblance of a master, is shaped by external influence in one place alone, the Treasury.

III

From the materials of the social revolution of the 1930's and the legacy of the financing of the War of the Totalitarians, a new and different central bank has been erected in the United States. It is located on Pennsylvania Avenue, in Washington. It is currently housed in what we call the Treasury Building. It is staffed by persons regarded—and who regard themselves—as being on the payroll of the Treasury Department. Its telephone number is Executive 6400, and it uses the stationery of the Treasury, and the Treasury Seal. But these appearances should not deceive us.

This fourth central bank of the United States is different from any of its predecessors, or any other institutions this society has constructed. It has greater responsibilities, it has greater powers, it has greater resources and techniques, it has directly and indirectly larger personnel, it has larger and wider influence—and it has not yet even been consciously organized or begun consciously to function!

The powers, methods and resources of this fourth central bank of the United States have not anywhere that I know been listed, to say nothing of being systematically outlined and explored. Such exploration will, I venture to prophesy, be the focus of attention for many years to come of students who heretofore have concentrated upon such pieces of the structure as central banking in the old sense, savings and investment, fiscal policy and the like. There are many pieces, as of a jigsaw puzzle, and it will be the work of many students and much time, to put them together to see at all clearly what this country's fourth central bank really is.

The clearest outline of the new structure I have seen is a description in "The Economist" in a discussion of Australian finance: "In most highly developed modern communities the administration of finance has come to rest on three tiers. First comes the ministry of finance, which determines general policy; next comes the central bank, which administers the policy; finally, there are the commercial banks and specialized institutions speeding the flow of commerce within the limits of general policy determined by the ministry of finance and administered by the central bank."

Something of the fourth central bank's massive and pervasive magnitude is evident from consideration of the mass of contracts which is the debt, and of the great scope of the granite-like inhibitions which have been induced, of the numerous and far-reaching responsibilities which have been passed on to it. Something of it can be seen by the variety of the tools with which it has to work. And something of it can be envisioned by the number of points which its manifold operations touch in economic theory.

Are we members of any of the schools stemming from the quantity theory? The fourth central bank will determine the quantity of money, the convertibility between money and other assets, will influence the velocity of money—and do so with or without deficit financing on the one hand or debt retirement on the other.

Are we members of any of the Keynesian sects? The fourth central bank will influence and perhaps determine the rate of savings and its quantity, the conditions which influence investment, the effect of liquidity preference, the propensity to consume—and do so with or without deficit financing or debt retirement.

Are we members of any of the equilibrium groups? The fourth central bank will greatly influence if not determine the level of prices and of costs and the relationship between them, the balance of payments, the supply of money in relation to demand—and do so with or without deficit financing or debt retirement.

Are we of the persuasion that some one specific economic operation spins out the threads of our fate? This fourth central bank will greatly influence if not determine the propensity to consume, the level of construction, the income of agriculture, the functioning of the capital markets, the level and structure of interest rates, the balance of payments, the efficiency of labor.

Do we ascribe economic causation to some other set of forces than those mentioned thus far? I shall be surprised, indeed, if the fourth central bank does not exert a considerable influence upon them.

Policy formulation by the fourth bank will not be made easier by the shrill cacophony of the economists, both professional and amateur, regarding virtually every basic consideration. Our various causation sects urge different premises for policy, and each is raucously critical of the others. The role of interest rates is the subject of most extreme contentions: low rates stimulate investment, rates are not an important consideration in investment decision, high rates stimulate investment; low rates stimulate saving, rates are not important in the motivation of saving, high rates stimulate saving. Bank credit can appropriately be used as capital, such use is inappropriate. The rate of savings may be expected to decline, to remain stable, to rise. There is little need to extend the catalogue of evidence that the analytical tools of the profession have not been developed far enough to bring agreement even among the closest students, nor to argue farther that the job of the fourth bank is not made easier by this lack of development and resulting counsel of babel.

The statutory position of the fourth bank is also vastly confused. Powers and authorizations are spread about in a thoroughly haphazard manner, some are lavish in their scope while some, I suspect, will be found quite niggardly.

In view of this situation, the fourth bank, like Crusoe, will need to exercise a great amount indeed of ingenuity, and, like him too, quite a bit of expediency. But, then, ingenuity and expediency are requirements imposed upon any human organization, young or old, so the fourth bank is at no greater disadvantage than any other in what Dr. Conant has called "the delightful chaos of American democracy."

The fourth bank will have to beware of the trap which Mill observed when he said: "Institutions, books, education, society all go on training human beings for the old, long after the new has come; much more when it is only coming," which the "Economist" called "piety to a principle learned in youth but the reason for which has been forgotten"; and which Dr. Goldenweiser described when he said: "There is real danger in experience. It often results in narrowing a public man's approach to national problems to considerations with which he has become familiar in a particular and often not a representative set of circumstances." But at the same time the fourth bank should not forget Lord Keynes' caution to the moderns in his last statement: "I find myself moved, not for the first time, to remind contemporary economists that the classical teaching embodied some permanent truths of great significance." Nor should it ignore Churchill's injunction that, "It is only from the past that one can judge the future."

At least the fourth bank will not lack a specific objective of operations as the third bank seems almost throughout its life to have wanted. The objective is to maximize and regularize real income at full employment. If this definition does not conform to consistency, the bank will have to worry about that deficiency.

I have said earlier that the mass of contracts we call the debt can be validated, or that they can be defaulted by inflation and/or retrogression in the standard of living. To say that the fourth bank can satisfy or fail in its responsibilities is but to say the same thing in different words. The rewards to society for its creation of the fourth bank can, if the bank succeeds, be cornucopian, but the sanctions, if it fails, can be brutal and appalling.

IV

We shall all, of course, interpret the creation of the fourth bank in terms of personal economic predilection. Some will doubtless view it as akin to the monster created by Mrs. Mary Shelly, while others will probably be confident that it will be to the annals of economics what Mrs. Ann Radcliffe was to the English novel.

For myself, the classic comments of Lord Macauley regarding the debt of Britain seem very relevant: "Those who so confidently predicted that she (England) must sink, first under a debt of 50 millions, then under a debt of 80 millions, then under a debt of 140 millions, then under a debt of 240 millions, and lastly under a debt of 800 millions, were beyond all doubt under a twofold mistake. They greatly overrated the pressure of the burden: they greatly underrated the strength by which the burden was to be borne." So, too, does another passage from Lord Keynes' testament: ". . . the best policy is to act on the optimistic hypothesis until it has been proved wrong. We shall do well not to fear the future too much."

The hypothesis that we do not necessarily need to view with great alarm the developments here recounted is based in turn on another hypothesis. This is that the fourth central bank:

> Can and will extend analysis of the facts about this mass of contracts to illuminate vast areas now hidden from sight by lack of information;
>
> That it can and will utilize its instruments to deal with long-range conditions as well as those cyclical and day-today;
>
> That it can and will develop usable criteria to replace those of the gold standard which have customarily guided central banks in the past;
>
> That, in short, it can and will discover and can and will develop from its mass of tools and materials informational and operational techniques useful to society in its exercise of the "certain inalienable rights" including "life, liberty and the pursuit of happiness."

Secretary Clayton vs. Sen. Butler On Reciprocal Trade Agreements

(Continued from page 598)

that this principle had been advanced, many years before, by President McKinley, President Theodore Roosevelt and President Taft.

"It is not without significance that the Reciprocal Trade Agreements Act was not raised as a national issue in the campaign. Before the last renewal in 1945, the extension of the law with increased power was specifically supported and vigorously urged by leading organizations representing American business, farm and labor groups. This program has always had, and it continues to have, a broad basis of popular support. Any party that sought to destroy it would tar itself with the brush of economic isolationism and it is well known that isolationism is a liability rather than an asset in contemporary politics.

Past Value to U. S.

"Second, I shall not comment on your use of the words 'pretended' and 'ostensible' in discussing the administration of the Trade Agreements Act. I should like, however, to call your attention to one indisputable fact. Between 1934-35 and 1938-39 our imports from countries with which we did not have trade agreements increased 12½%; our imports from countries with which we did have trade agreements increased 22%. In the same period our exports to countries with which we did not have trade agreements increased 32%; our exports to countries with which we had trade agreements increased 63%. It seems to me that this disposes of your contention that the concessions obtained through trade agreement negotiations have been valueless to the United States.

Concessions Will Be Flexible

"Third, it is true that the list of products on which tariff concessions are now being considered is a long one. This list was issued for the purpose of assembling information on these products and in order to give all interested parties a full opportunity to present their views. But it should not be inferred that the tariff on all of these products will be reduced or that the tariff on any particular product will be reduced by the full amount permitted by the law. It should be noted, moreover, that the countries with which we are planning to negotiate represent not only a substantial percentage of our imports but also a substantial percentage of our exports and that the list of products on which we plan to seek concessions from other countries will be quite as long and as important as the list on which we would consider making concessions in return.

It should not be overlooked that the projected negotiations are but one part of a larger program of international economic cooperation which stems from the Atlantic Charter and includes our participation in the Economic and Social Council, the International Monetary Fund and the Bank for Reconstruction and Development, the Food and Agriculture Organization, and other agencies which both parties in Congress have already approved by overwhelming votes.

"These negotiations are a necessary prerequisite to the establishment of the International Trade Organization proposed by the United States and this Organization in turn is essential to the whole structure of international cooperation in economic and political affairs. The trade negotiations and the ITO are part and parcel of a program that is designed to promote the prosperity of the United States by obtaining international agreements which will commit the other countries of the world against closing their markets to our goods. It is also designed to promote the peace by substituting consultation and cooperation for aggression and conflict in international economic relations.

Not a Destroyer of Protection

"Fourth, the Administration has never sought 'to destroy our system of tariff protection.' It does not seek to do so now. Changes in tariffs have been made only after thorough investigation and full hearings. During four successive renewals of the Trade Agreements Act, both houses of Congress have built up a voluminous record that covers, in detail, every criticism that has been raised concerning the operation of the Act. If you will examine this record you will find that particular groups have expressed their fears concerning what might happen to them at some future time. But you will find no demonstration that these fears have ever been justified. If any industry in the United States has suffered serious injury as a result of the operation of the trade agreements program, the record does not disclose it. In the absence of any such evidence you will understand why it is difficult for me to give weight to the vague fears of groups who have never been hurt and who, I am confident, will never be hurt by the operation of this Act.

"I am glad to learn that you believe that 'our foreign trade should be expanded by securing advantageous concessions from foreign nations without doing substantial injury to domestic agriculture and industry.' This is the way in which the Trade Agreements Act has been administered in the past. This is the way in which it will be administered in the months to come.

"As you know, President Truman assured Speaker Rayburn, at the time when the Trade Agreements Act was extended in 1945, that no action would be taken during his Administration which would result in grave injury to any essential American industry or agricultural activity. Moreover, the Department of State has announced that all future trade agreements will contain an escape clause similar to that contained in the agreement with Mexico which will permit the President to take appropriate action to protect any industry or agricultural activity which is seriously threatened by the operation of such agreements.

"Far from intending 'to destroy our system of tariff protection,' our government is entering into the projected trade negotiations for the purpose of insuring that tariffs, rather than discriminatory import quotas, exchange controls, and bilateral barter deals, shall be the accepted method by which nations regulate their foreign trade. If it were not for the initiative which our government has taken in this matter, the world would be headed straight toward the deliberate strangulation of its commerce through the imposition of detailed administrative controls. I need hardly tell you that such a development would be seriously prejudicial to the essential interests of the United States. Through a judicious exercise of the bargaining power which the Trade Agreements Act has placed in our hands, I am confident that we shall be able to reverse this trend. Without that power, there is little hope that we should be able to do so.

"We are fighting for the preservation of the sort of a world in which Americans want to live—a world which holds out some promise for the future of private enterprise, of economic freedom, of rising standards of living, of international cooperation, of security and peace. The trade agreements program is an instrument whose aid we need if we are to achieve these ends.

"Very truly yours,
"W. L. CLAYTON,
"Under Secretary."

* * *

Senator Butler's Rejoinder

Senator Butler's reply thereto, dated Jan. 21, follows:

Mr. Calyton's letter seems to miss a large part of the principal point at issue. He speaks of "insuring that tariffs, rather than discriminatory import quotas, exchange controls, and bilateral barter deals, shall be the accepted method by which nations regulate their foreign trade." This trade agreements program had already failed to do just exactly that, even during its earlier phase. It is admitted that the trend toward discrimination has accelerated since the war. When Mr. Clayton states that he is "confident that we shall be able to reverse this trend," he is taking on a large order.

Denies GOP Support

Just to clear the record, there are several errors in Mr. Clayton's statement. Contrary to his statement, Republicans as a whole have not supported his program, but have urged amendments to the Trade Agreements Act which would have changed the program materially. Nor is it entirely true to state that all interested parties are being offered a full opportunity to present their views in connection with these negotiations. Hearings on them are being run through in only three weeks, as compared with the many months of careful study that preceded the last general tariff revision in 1930.

The fallacies of Mr. Clayton's "indisputable facts" on the results on our trade of these agreements have been pointed out before in Congressional hearings and are still valid. His statement that no domestic producers have suffered serious injury from tariff reductions is certainly extraordinary. My information is that in the several hundred briefs which have been submitted in opposition to the present program, a great many have submitted proof of injury. The statement that "it should not be inferred that the tariff on all of these products will be reduced" is not particularly reassuring in the light of past experience.

The Case of Wool "Economic Nonsense"

Wool presents a particularly good example of the Wonderland of economic nonsense into which we have entered. By our low tariff levels we have given most of our domestic market to foreign wools; more recently, by a government subsidy program, we have tried to give it back to domestic wools. We have reached the point where one department of the government, with a subsidy, is in direct competition for the American wool market with another department, which is engaged in encouraging imports. It would seem that the State Department is deliberately attempting to undercut the Agriculture Department's price-support program.

The attempt to throw the mantle of non-partisanship around this program is likely to deceive very few people. Our bipartisan foreign policy on peace treaties was developed as a result of an invitation by the State Department to Congressional leaders of both parties to join in framing it. **No such policy has been followed by the State Department with respect to trade treaty negotiations.**

If Mr. Clayton really desires to keep partisanship out of the trade agreement program, it would be appropriate for him to invite the responsible Congressional committees into his confidence. As a minimum, it seems to me, the Senate Finance and House Ways and Means Committees might well be informed, in confidence, of the successive decisions and contemplated steps in each stage of the negotiations, including those tariffs recommended to be reduced by the committees of experts, **prior to the actual bargaining.**

In recent months the American people have exhibited a new temper on their outlook on issues involving our relations with other countries. The direction of that feeling has not been toward any policy of "isolationism." This new temper, I would say has been directed more toward a greater realism, a disposition to insist that international cooperation be a two-way, rather than a one-way street. It has been expressed in opposition to further appeasement of Russia, in opposition to the free and easy lending and giving of American money to foreign nations, in opposition to again contributing a major portion of an international fund which can be wasted and mismanaged by others in the name of relief.

Protection against a flood of imports is of equally vital importance to our national welfare. On this question likewise, I believe our people are disposed to insist on a program that is more truly reciprocal.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

Market now on verge of break-out. Question of direction not settled. Surface signs say "up," undercurrents point "down."

The dullness which set in after the averages moved up to about 176, is still present at this writing. The uncertainties we wrote about in last week's column are likewise present. In fact the only thing changed in the past few days is that time has elapsed. And in this passing of time a few things the market leans on have come closer to happening.

* * *

The most important coming event, at least the majority of stock market-minded look upon it as the most important, is the tax picture. The guesses of what the new tax will be range all the way from a straight 20% cut across the board (Knutsen plan) down to a continuation of the status quo (Truman plan). I have no inside information but would venture to say that it will be about an 8% cut on the upper brackets with higher exemptions in the lower ones.

* * *

Another coming event the market has been looking for was the management-labor discussion. If the recent settlement between the steel workers and Big Steel is any yardstick, the chances are that the auto companies and electrical outfits will also settle their differences on the same basis. Naturally a three-month deal isn't the ideal set-up. But it is better than nothing.

* * *

From a market standpoint, strikes, actual or potential, have little influence. Main reason is that somewhere along the line somebody knows what the monetary result will be and has acted accordingly. It is therefore a partial answer why stocks do so little on strikes or strike settlements. Only the public buys and sells on news of that nature.

* * *

The question probably uppermost in most minds is when will this market do something. Last week I had hoped the answer would be forthcoming this week. But the market can't be pushed. It takes its own time. When it is ready to talk, it talks; prodding it doesn't get it any place.

* * *

At this writing the averages have worked themselves into a corner forming a kind of a coil. At least that is what chartists call it. Usually this kind of action preceded a violent upswing. There is nothing, however, certain about future performance. And past performance frequently is a poor yardstick to measure the future by. From what I can recognize of the action, it looks as if the breakout will come out of a confusion of good and bad market days, and will probably be on the down side. There might be a couple of days of temporary strength first, but basic currents seem to be in the direction of decline.

* * *

Last week and the week before the downside support point was around the 170 level. Now it looks as if the support point should be at the 174 point. On the up-side resistance seems seems to be from 176 to 180. Should the averages go through the upper ranges the outlook will have changed. But in trading it is wisest to expect the worst; at least be prepared for it. If it doesn't materialize, fine and good, you've lost nothing by waiting; if it does, you are still secure.

* * *

There is one thing to say about recent action, and that is that prices can't stay in the present zone much longer. So the chances are that before many days you will have the answer to "when will they do something."

* * *

You are now long of but two stocks, Anaconda at 37 with a stop at 37 and Dresser at 17, stop 18. I should like to add a few more issues. But until I can see more, I'll have to hold back.

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.]

Certain Depression Ahead!

(Continued from page 595)

gerous as the specialized kidney doctor who looks at the world constantly in terms of kidneys and therefore, is in favor of removing the kidneys of the entire populace. The provable fact is that the monetary factors play but a minor part in determining good and bad times, or the general price for commodities and securities. Try if you will and explain today to the fur merchant or the citrus fruit grower, both of whom are among the increasing number unable to get back even the cost of production for their product—that the amount of money in circulation or the other monetary factors are in such a favorable condition that furs and citrus fruits cannot possibly go into a depression.

Over-Spending and Over-Eating

With the limited facilities for production in Europe and other parts of the world, if the supply of money is increased drastically, it, of course, has an immediate effect on the price level. Now, if you would know how different is the American economy from that of the other 79 countries of the world, study the science of medicine in these countries. Whereas in Europe, Asia and other continents, practically all the basic medical problems are due to malnutrition, in the United States, on the contrary, most medical problems are due to over-indulgence. In the same way, where depressions in other countries are due to shortages, crop failures, etc., we have never had a depression here caused by scarcity, but rather by over-abundance of almost everything. Those who have been warning the public that inflation was coming, with its resulting scarcities, are in store for serious disillusionment from the greatest industrial and agricultural machine the world has ever seen.

I am going to try to put in simple terms the reasons why America faces its most serious depression with a lowered standard of living. Let us suppose I am a real estate salesman and I succeed in selling you a home in a given neighborhood. After you paid your money and moved in, I tell you that the neighborhood is infested with murderers and arsonists and that if you do not hire two policemen to stand in front of the house and in the back of the house while you are asleep, that you will be a "gonner." Obviously, you will say that with such a financial burden for protection on your back, that you are as good as a "gonner" already.

Our Past Standard of Living

Now, just how did the previous generation of America have the highest standard of living in the world! In the older countries, from time immemorial, a substantial part of the national income went to pay the upkeep of military establishments that did not produce a single dollar of actual wealth. Find a country where there are many people in uniform, either in the Army or Navy, and you will find a country with a lowered standard of living. It is true that in the pioneer days of the pilgrims a substantial number of small communities could not produce wealth, but had to stand constantly on guard outside the stockades. But, as the country developed, we grow to a point where the amount of money spent for "the military policemen" got so small, that during the '20s, for example, it was only 1% of the national income. The Second World War in one generation has changed all that. Today, and for years to come the biggest single factor in the financial lives of everyone of you here will be what you will pay annually for "the policemen." Economically, the individual with two policemen to protect him while he sleeps is no different from the country with a two ocean navy and a record military establishment all around.

Disastrous Taxation

The United States today, paying one-third of its entire national income to the various tax collectors is in a far different position from the America of the past. You can't write the same check twice to the automobile dealer, the radio manufacturer or for any other gadget and at the same time write it to pay for veteran's hospitals, armament and a police force spread all over the world.

Let us turn to another phase of the outlook. Where normally it took great ability to succeed in American business, during the last several years, one had to be a veritable genius to fail in almost any form of economic activity. We have then built up a great backlog of hundreds of thousands of high cost inefficient farmers, retailers and manufacturers who can no longer make both ends meet now that the hothouse prosperity is over. Most businessmen and most individual citizens have no conception as yet as to the enormous financial burden they must carry for the rest of their lives. Instead, we find they are going to different loan agencies to borrow money *actually to pay taxes and for living expenses* as though by some miracle things would change completely in six months or a year. From commercial banks of the country alone, we see loans already at a new all-time high and jumping at the rate of over 100 millions weekly through this one channel.

The Two Kinds of Depressions

Now, there are two kinds of depressions. First, the financial depression, and second, the business depression. The depression from 1929 to 1933 was largely a financial depression with several thousand banks, investment trusts, brokers and other financial institutions permanently closing their doors. During that period, there was not a single nationally known commercial or industrial receivership. What we face now is not a financial depression but a business depression, accompanied by cancellations of orders, the declining value of inventories, the disappearance of cash resources and finally, large scale receiverships. American businessmen and industrialists have been on a gambling spree in recent years, just as the banks and financial institutions were on a gambling spree in the late '20s. The first sign of the crisis came with the break in the security market late last summer. The second sign was the beginning of the collapse of the luxury industries, which obviously, are the first to go. Furs, cosmetics, night clubs, jewelry, wines and liquors, perfumes and a long list of other luxury lines are getting sicker and sicker as the average family finds it just does not have the money for luxuries after paying for the cost of necessities, plus record peacetime *taxation*. Another phase, which we recently entered, is the beginning of the break in necessities, such as food products, textiles, building materials, etc. Through some strange reasoning, the broker who sees his client owning textile shares outright, believes that nothing serious can happen to such a client, even though the management of the textile mill itself has been gambling and has the mill at the point where it can't stand even four or five months of declining business and declining prices.

Depression Will Snowball

In conclusion, I would like to say two things about the nature of *business* depressions. First, that they develop a very high velocity once they start, being similar to a snowball rolling downhill. Second, if those who believe that there is big business in producing $5,000 homes to sell at $10,000 and $11,000 or to sell $930 cars at $1,400 or $1,500 are in store for the shock of their lives. Not only is the business depression coming, but it is absolutely necessary if we are even to begin to maintain the standard of living of the middle classes. They were wiped out in practically every other country as a result of wars so costly, that civilization could not possibly afford them. From here on, we pay and pay and pay.

Los Angeles Stock Ex. Elects New Officers

LOS ANGELES, CALIF.—B. P. Lester, Lester & Company, has been elected Chairman of the Board of Governors of the Los Angeles Stock Exchange, succeeding McClarty Harbison, Harbison & Gregory, who was elevated to that position recently with the appointment of a paid president.


B. P. Lester

W. G. Paul was reappointed president of the Exchange, a position he assumed recently when the membership authorized the creation of a position of paid president.

Other officers named were: Horace E. Martin, Crowell, Weedon & Co., Vice-Chairman; P. J. Shropshire, Mitchum, Tully & Co., Treasurer; and D. Roger Hopkins, Hopkins, Harbach & Co., Secretary.

Inez Vermillion and A. R. Gilbert were renamed Assistant Secretaries.

Joins Newhard Cook Staff

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, MO.—George O. Jones has become associated with Newhard, Cook & Co., Fourth & Olive Streets, members of the New York and St. Louis Stock Exchanges and other exchanges.

Instalment Loans for Small Business

(Contniued from page 604)

few years been looking to the field of consumer credit to supplement their earnings and to better take care of the credit needs of their customers and communities. It is natural that they should do so; because actually, when we stop to consider the type of loans we have available to us, it is apparent that instalment loans offer the average bank an excellent opportunity for increased earnings and at the same time offer a wide diversification of risk in a type of loan with the highest degree of liquidity.

Crop loans and livestock, range, or feeder loans may also offer an important addition to a bank's loan portfolio.

You may have some warehouse loans in your portfolio, but these are very limited in volume for most banks.

Accounts receivable are generally available in volume only in manufacturing centers, and as a consequence, are not an important addition to the loan portfolios of most banks.

Loans on securities have been pretty much curtailed by government regulation, and even when available, represent a very low interest earning type.

The degree of liquidity offered by an instalment loan portfolio is frequently overlooked. Late in 1939, we made a study of our instalment loan portfolio, and this study showed that if we had stopped making loans at that time, we would have had a 48% runoff in six months, and 73% within one year; this, in spite of the fact that loans were being made with maturiites ranging from six months to five years, with nearly 64% of our loans having an original maturity of 36 months.

The problem as I see it is that all government agencies, as well as banks, have in the past been largely geared to care for the needs of medium to large business only, and not the needs of small business.

The reason for this is easy to see when we stop to analyze just what is meant by small businesses, and what goes to make up their total numbers.

Seventy-three and three-tenths percent of all active commercial and industrial firms in the United States in 1942 had a tangible net worth of $5,000 or less, and 41.5% had a tangible net worth of less than $1,000. A large percentage of these businesses are one-man organizations with 82% of them employing three persons or less. As a consequence, many of your personal loans to these individuals are for use in the applicant's business and their repayment is made out of profits from this business.

These businesses, for the most part, could not make a financial statement which would justify the extension of much, if any, unsecured credit, in the opinion of the average commercial loaning officer; and yet many of these same businesses would be entitled to credit, in the opinion of any well informed, experienced, instalment loan credit man; and furthermore, most of the loans so made would be paid back satisfactorily and with a higher interest rate to the bank than would be asked or received if the same credit were extended as a commercial loan.

Instalment Loan Technique Required

To make this type of loan successfully and in volume requires an instalment loan technique, and certainly the smaller loans of this type (and they will be in the majority) should by all means be made and serviced by your instalment loan department where the loaning officer or officers responsible for the approval or disapproval of these loans can get the feel of them, instead of asking all your commercial loaning officers to continually try to change pace in their thinking throughout the day.

Higher than average commercial loan rates are in order for the smaller loans, at least, because the greater amount of servicing and cost of acquisition required, the higher the necessary rate.

When you are dealing with businesses, the largest percentage of which have a net worth of less than $5,000 and are staffed with three employees or less, you are obviously dealing with a type that will have the highest mortality rate, the least capital funds, and the poorest bookkeeping system, if any. It will have the greatest vulnerability in the event of sickness or death of the owner, and the most conglomerate type of security to offer. On the other hand, this type of business loan offers banks a wide diversification in their own communities where the loaning officer's knowledge of local conditions and neighborhood and community needs permits the use of greater wisdom, discretion, and selection of the risk which is being taken than is possible for governmental or other agencies.

In spite of all the headaches which go with this type of credit extension, the results, in my opinion, will greately outweigh them.

Interest Rate and Charges

In all propoganda by the government regarding Federal loan aid to small business, an important point is made of the fact that small business needs a low interest rate to compete with large business.

Do not be stampeded by such talk into establishing too low an interest rate for these loans, because a policy of too low interest for the small business borrower is not a sound one; instead of helping small business, such a policy actually does it an injustice. The differential between 4% and 5% per annum and 3% and 4% more on borrowed funds has little or no bearing on the success or failure of a business.

Low interest rates alone do not create volume. The only way I know of to obtain volume in small business loans is through advertising, publicity and understanding and friendly attitude toward your loan requests, and the proper facilities for the making and servicing of them.

Mortality Rate of Small Business

The operation of a business is a hard competitive struggle, and the yearly mortality rate is high. Nearly one-third of all new business enterprises fail in their first year; another 14% to 15% fail in their second year; and very nearly 70% are gone by the end of five years.

This high ratio of business failures and discontinuances is a terrific source of waste. At the turn of the century, there were 1,174,000 independent business enterprises in this country. By the end of 1940, the number had increased to 2,156,000. To achieve this net gain of less than 1,000,000, a total of 16,000,000 new business enterprises were established during the 40-year period, or an average of 400,000 per year.

We should not allow these figures to discourage us, however, because there are many reasons why businesses go out of existence; and in reality only a small percentage of this number represents actual failures, as indicated by the fact that in 1921, for example, business failures totaled only only 1% of the total business in existence.

Probably the best way to encourage the small business man is to invite him to talk over his business problems with you as his banker. The average small-town banker is very close to the affairs of his community and is in an excellent position to advise iin matters regarding business location, lease terms, rental payments, working capital needs, capital expenditures, proper insurance coverage, and the need for keeping an adequate set of books, etc. This shows up continually in various studies of bankrupticies and failures.

We must realize that times have changed, and that the whole trend of bank credit is definitely toward instalment credit, whether it is loans to finance automobiles, furniture, household appliances, commercial and private aircraft, loans for doctor bills, or term instalment loans to business.

In our office, we studied 328 loans made to businesses with assets of under $50,000 which 328 loans represented one-sixth of the active loans of this type on our books in this particular office. The outstanding total of these loans amounted to $652,308. Of these 328 loans, 211 were instalment loans, or 64.32% of the total by number; and $274,740 was the total dollar amount, or 42% of the total. One hundred and sixty-nine loans, or 51.54%, were made to businesses established after 1942.

A Federation of German States

(Continued from page 603)

silence. Bismarck took his pipe from his mouth, and looking at me, said, "Germany, for military reasons, requires a strong and highly-organized government." He put the pipe back, and the subject was dropped.

That is a long time ago, but Bismarck stated the specific reason why we should not now reorganize Germany on that basis. We should reorganize Germany on a federal basis, and it can and should be done without delay.

The German people are a very remarkable people. They have an extraordinary amount—or degree, perhaps, is better—of intellectuality. For two generations they have been under the control and direction of the Prussian militaristic spirit, and that has got to be checked. In my judgment, we should proceed without delay to the federal reorganization of Germany.

I made these recommendations five years ago to President Franklin Roosevelt and to Prime Minister Winston Churchill. Both accepted them with great enthusiasm and said they were having them studied by their governments. I take it for granted that that study is still going on.

Prussia Danger Spot

If we are to have a federal organization, we should make sure that we make it impossible for Prussia to resume its control of the whole German people. It is the large land-owning element of Prussia and East Prussia, with zest for war and for conquest—and for territorial conquests of one kind and another—which has wrecked the German people in these wars, and would wreck them again if it were permitted to go forward unhampered and unchecked.

If my influence were to exist, I should see to it that Prussia as it is today was divided into two or three states of the new federation, and I should see to it that the capital of the new Germany was moved from Berlin to some one of the half dozen cities available for the purpose in central or southern Germany. I would see to it that all emphasis was laid on the intellectual and productive side of the German people, to have them go forward economically and industrially, to have them go forward intellectually, and to bring back their great universities to the position that they occupied before they, too, were wrecked.

If this could be done, we shall be carrying out the aim of the Pilgrims. We shall be extending over a wider area that influence of the fundamental principles of the United States and Great Britain to which we are devoted and in which we so heartily believe.

Speed Imperative

But we must act without delay, for, if we do not, other forces will be at work and make either impossible or greatly delay the reconstruction which is so imperative and so desirable.

There is the situation as I see it today. These are the aims of the Pilgrims. They are the aims in which we profoundly believe. We have witnessed them go forward in the United States and in Great Britain, and while there is much still to be done, yet, everything is well under way, and the dominant spirit is effective, constructive and helpful.

If the English-speaking peoples, with their immense area, their huge population, their great intellectual and economic achievements, can unite together for this constructive purpose, we shall almost before we know it have begun to rebuild Central and Western Europe and put those people back on a peaceful footing, where they, too, can share the benefits of what has been so great to the English-speaking peoples.

Believe me, my fellow Pilgrims, we are living in an age when problems are so imperative and so pressing, that one cannot afford to wait. We should act and act quickly. The time has come to rebuild a peaceful and economic and intellectual Germany and to see to it that the militaristic elements which have so damaged that people and brought them to wrack and ruin during the past two generations are no longer allowed to be effective. That is the next step for the Pilgrims to take.

Food Commission's Proposals

(Continued from page 597)

"There is reason to hope—indeed to expect—that the essential features . . . will be made the basis of action."

Bruce Sees Farreaching Effects: Role For World Bank

Speaking not as an Australian but as the Commission's chairman the Rt. Hon. S. M. Bruce expressed to that body the view that the report's recommendation of an annual review of national agricultural and nutritional programs opened the way to a new expansion and stability in agriculture which will have profound repercussions upon industry and the whole economic structure. But to achieve development of the less advanced countries will involve the provision of great capital sums, Lord Bruce said. Finally he stressed the need for the closest cooperation among existing UN organizations and voiced the personal view that ECOSOC should take early and effective action to that end.

The official summary of the Commission's report, in dealing with finance, cites as a requisite of international aid that the country concerned must put its national finances on a firm foundation and provide a substantial part of its own needs. The report states that the World Bank will handle most of the development projects requiring international financing. It adds: "The Bank's resources have not yet been stretched, but it will be disappointing if development does not gather such momentum as to make the presently available resources quite inadequate." To lending countries "some of which have sensitive and unstable economies," the Commission recommends—doubtless too optimistically—that international investments be timed as far as practicable to mitigate rather than aggravate business cycle fluctuations.

Believing that only by intergovernmental cooperation can agricultural price stability be achieved, the report recommends "for many commodities" intergovernmental commodity arrangements with in appropriate cases famine reserves of basic foods held nationally for use internationally and buffer stocks of commodities subject to seasonal and cyclical fluctuations. These stocks would be used under internationally agreed rules.

The report contains conclusions and recommendations concerning various commodities, including wheat, sugar, rice, livestock products, oils and fats, fish, tea and cocoa, cotton, wool and timber. It suggests further study of maize, rye, barley, other grains, tobacco and coffee. The principles of an international wheat agreement are set forth in considerable detail.

Different Course Than Orr Recommended

From the foregoing it will be seen that the sessions in Washington point the craft of international agricultural cooperation down a somewhat different road than was recommended by Sir John Orr at the time of the Copenhagen conference. Whereas Sir John Advised the nations to create an internationally-financed sort of agricultural adjustment administration, the present report is strictly limited to projects which can be nationally financed. While it was something of a job for the Americans to convince some of the other delegations in Washington that an internationally-financed food board would meet the approval neither of Congress nor of various other countries which would be expected to put up funds therefore, in the end they were convinced. Thus, while the buffer-stock idea survives from the Orr recommendation, its financing is to be strictly on a national basis.

One of the most important recommendations of the Preparatory Commission is that calling for an annual review, at the FAO Conference, of national agricultural and nutritional programs. This recommendation, which originated with the U. S. Department of Agriculture, is expected to iron out conflicts and minimize the dangers of regressive measures. The emphasis, indeed, is on expansion. Annual review involves something more than passing nice-sounding resolutions, officials explain; it constitutes a concrete program of action.

Similarly, in recommending intergovernmental commodity agreements the Preparatory Commission seeks to move in the direction of expansion. Under past commodity agreements, officials state, the tendency was toward restriction of production and sales. The alternative to the course recommended by the Preparatory Commission is an extension of unilateral action, necessarily restrictive. As one delegate to the Commission explains it to the writer, the question is not one of commodity agreements versus free trade, but rather of internationally coordinated intervention versus unilateral national action.

A third feature of the current recommendations is that of special price sales tied to surplus situations, explained below. While this was part of the Orr proposals at Copenhagen, the Preparatory Commission has dropped Sir John's plan for international financing thereof, and leaves the sales to the individual nations.

Obligations of Dealers and Brokers In Interpreting Prospectuses

(Continued from page 597)

ing brokers and dealers clearly explain to their customers the information contained in prospectuses covering offerings of securities under the Securities Act of 1933.

The general purpose of the Securities Act, as you well know, is to provide full and fair disclosure of material facts concerning the character of securities. This disclosure is accomplished by means of registration statements which must be filed with the Commission prior to the public offering or sale of any security by use of the mails or in interstate commerce. The registration statement contains information with respect to the issuer's business, its securities, its management and the manner in which the securities are to be offered. This document is a matter of public record available for inspection at the Commission's office. Of greater significance, however, in providing a prospective investor with ready access to adequate information, is the requirement that each purchaser receive a copy of the statutory prospectus.

If these objectives of the Act are to be attained, it is desirable that the information in the prospectus in every instance reach the prospective investor before he buys so that he can make an informed judgment as to the risks involved in the purchase. As Chairman Caffrey indicated in his address before the Investment Bankers Association on Dec. 4, 1946, this end can best be achieved if you customers' brokers will literally sit down with an investor, open the prospectus for him, explain what it is, what it contains and actually guide him through it. The information the customer needs is nearly always to be found in the prospectus and your explanation should make crystal clear to him just what the offering is about.

Goal of the Prospectus

Of course from an ideal standpoint, the prospectus to be fully informative should be written so simply and concisely that any investor can understand it without technical advice. It should contain only material information in summarized form. All irrelevant data should be excluded. As we all know from the experiences we have had, this ideal is not always possible to achieve. However, it is a goal to which the SEC, issuers, underwriters and their counsel must constantly direct their efforts.

At the Commission we are doing all we can to make this ideal a reality. We have undertaken a program to simplify our forms. And, to facilitate the registration process, the staff is always available for conferences with issuers and underwriters before and after registration statements have been filed. We have constantly urged the use of a concise and readable document. Unfortunately, our efforts in this respect have not always been as successful as we wish them to be. Frequently, the prospectus is an almost complete copy of the text of the registration statement and contains a number of irrelevant items which tend to becloud rather than reveal the salient, necessary information. I am thoroughly convinced that as a general rule the material facts concerning almost any security offering can be digested in a prospectus of not more than 20 printed pages. Within recent months you have seen examples of this type where a few large corporations with extensive holdings have made offerings of securities to the general public and have boiled down the data in the prospectus to approximately that number of pages and less.

In this connection you no doubt have noticed the Commission's recent announcement concerning a revision of registration statement Form S-1 and the elimination of two pre-existing forms, A-1 and A-2. The new Form S-1 is part of the Commission's program to see to it that registration statements and the prospectuses filed with them are clarified, simplified and stripped of surplusage. You may rest assured that, if, at any time, we are satisfied that the public interest and the protection of investors will be adequately served by a further reduction in the quantum of information required in a registration statement or prospectus, such reduction will be effected immediately.

Efforts At Simplification

Very likely you will recall that in 1940 the Commission and representatives of the securities industry got together and worked out certain proposals to amend the Securities Act of 1933 and the Securities Exchange Act of 1934. On many points complete agreement was reached while on others alternative suggestions were offered. These recommendations were submitted to the Congress but the hearings were interrupted because of the war emergency. You may have noticed in the papers recently that this program has now been resumed. Some of the problems confronting us in 1940 and 1941 have been solved by amendment and administrative action, while others have arisen since that time and must be considered in the light of present conditions. Representatives of the industry, other interested parties and the Commission are now giving serious study to ways and means of arriving at a common agreement as to changes, where possible and desirable in the public interest and consistent with the protection of investors. Among the major problems to be considered will be some simplification of the registration process and the use of a preliminary limited prospectus to be circulated among members of the investing public during the "cooling period" between the filing and effective dates of the registration statement. In the not too far distant future it is hoped that appropriate and workable proposals will be submitted for consideration by the Congress.

Since the Commission is interested in tht views of all persons who feel they can contribute helpful comments, I suggest that you men, who know the securities business and the needs of investors so well, cooperate with us in this endeavor. Any views you may present, either for or against amendments to these Acts as they now stand, will receive careful consideration.

When speaking of investors in this discussion let me now point out that I have reference only to persons who buy securities to hold for an indefinite period of time, persons who are interested chiefly in the protection of their capital investment and the receipt of dividends or interest. I do not refer in any way to the so called gambler who buys for a short-swing profit and who is primarily concerned with inside "tips" rather than sound long-term investments.

Basic Principles

When sitting down with a potential investor I believe that you, as customers' brokers, might well keep in mind two basic principles which should be made clear to him: (1) The purchase of a security is the purchase of a general or restricted interest in the *future* earnings of a business; a general interest if the security is a common stock and a restricted interest if it is a preferred stock, a note or a bond. (2) A persons who invests in a security puts money at a risk: and the greater the risk entailed, the greater should be the return on his investment.

He should be made to understand that securities are intricate merchandise which is not to be bought blindly and that the data contained in the prospectus are placed there so that he may, before buying an interest in a business, evaluate its future earnings and estimate the risks involved, and then and only then decide whether to buy. "Before you invest—investigate" is by now a hackneyed phrase, but to my mind it is one which not only bears repeating but one which should be instilled into the mind of every investor until, like the alphabet, it becomes part of his mental equipment.

If I were in your position, discussing the contents of a prospectus with a customer I would be inclined to adopt the following procedure.

Procedure in Explaining Prospectus

After considering and explaining the information concerning the offering appearing on the facing page, I would turn to the financial statements. Despite the reactions of some few persons to the contrary, these statements are furnished not to baffle or conceal, but to clarify and reveal the financial condition of the issuer as of the time of the offering. I would explain that these statements are the keystone of the prospectus and that all other information in the prospectus is built around and is explanatory of them. The balance sheet, the profit and loss statement and the statement of surplus should be analyzed and explained. A comprehension of each is necessary for a full understanding of the financial condition and operations of the enterprise. Each portrays a different part of the company's financial picture and a study of each is necessary for a complete understanding of the others. From them alone the investor can learn whether the company is currently financially sound and operating on a profitable basis.

Next we would turn to the summary of earnings for past years, because the investor should know not only whether the company is making money at the present time but also whether it has a favorable history of successful operation over an extended period and its present earning position is not merely a fortuitous circumstance.

The past earning record, however, is again only a part of the story. The investor should know the background of that record so that he will be able to judge whether there is reasonable probability of its continuance. By turning to that part of the prospectus covering the history of the business he will receive some assistance on this score. There he may learn what part of the earnings record was based on ordinary peace-time production as contrasted with war-time operations or other extraordinary conditions. He will also find information concerning the company's organization and structure, the nature and diversification of its activities, a description of its plants and other facilities, its source of materials, the nature of its products, the manner in which they are distributed, its proposed activities and the extent of competition in the same field. With a knowledge of these factors, he may make some estimate of the issuer's ability to operate profitably in the future.

After discussing the history of the business, I would turn to that portion of the prospectus covering the management and control of the issuer. If the company has enjoyed a favorable record of earnings, it is important for the investor to know whether the officers and directors who successfully guided the business in the past are to continue to direct it in the future. If a successful and experienced management has been succeeded by one without experience a glowing record of past earnings might well go glimmering and the capital investment risk be substantially increased.

From the foregoing the investor may judge whether the condition of the business is sound and whether the company's prospects for future earnings are favorable.

Capitalization Items

I would next refer to the general capitalization and a detailed description of the security being offered by the prospectus. It should be explained to the investor whether a debt or an equity security is involved and whether, in the event he purchases, he will become a creditor of the company or a part owner of the business subject to the risks thereby entailed. If an equity security is offered, his attention should be directed to the dividend record of the company and it should be explained whether his rights to dividends are contingent upon the prior payment of dividends or interest on other securities which have been or are being issued by the company.

To the extent that such a discussion is pertinent I would indicate and explain the voting rights given to a holder of the security, and whatever conversion, redemption or liquidation features the security may possess. I would also point out any provisions which might permit dilution of his interest in the business and, in any case where a debt security is being offered, the manner in which his investment is secured or subject to the prior claims of senior security holders.

I would indicate what the terms of the offering are, and in this connection, I should think the investor would be particularly interested in and should know just how much of his capital investment is going into the business, as contrasted to the amount that will be absorbed by payments to underwriters and selling group members and by other expenses entailed in the offering and distribution of the security. If the offering price of the security is being stabilized during the distribution period, this fact should be noted as well as its significance.

Lastly, I would refer to the statements concerning the proposed use to be made by the issuer of the proceeds from the offering, so that the investor may know whether his money will be spent upon new financing and further development of the enterprise or utilized for the payment of past obligations. If the offering is made on behalf of selling stockholders, the investor should be advised of the implications of a bail out, if such may be inferred.

The foregoing represents but a brief review of the elementary factors concerning a security offering in which I believe every investor is or ought to be vitally interested. As you appreciate, it constitutes merely a skeleton outline of such factors and the approach which I would take, if I myself were explaining the contents of the prospectus to a potential purchasing customer.

Place Yourself in Customer's Position

When you sit down with your customer, try to place yourself in his position or, in other words, put yourself on his side of the table. By trying to think from his point of view, you will be sure to offer him only what is suitable for his portfolio. It might be well, at that time, to ask yourself these questions: What type of security would I want if I were in this fellow's shoes? And, is this particular security the one which I would buy under the same circumstances?

If such a procedure were followed by brokers and dealers in offering to customers securities which are subject to the prospectus requirements of the Act, I believe the resulting benefits would inure not only to the customer's but to your own advantage as well. You and I know that the securities business would be benefited immeasurably by the education of investors. I know of no way in which such education may be better achieved than by this process of sitting down with the investor and explaining to him the basic, necessary facts concerning proposed investments. I feel certain that if such an education program were adopted and actively practiced by members of the securities business generally, the gains which would accrue to it in good will alone would be tremendous. You and I have learned by now that a satisfied customer is the best customer and one who will return to do business in the future. We have also learned that the more securities are held by informed investors, the less danger there is of panic sales and manipulation.

A Word of Caution

Now, before relinquishing the rostrum, let me stress a word of caution. I appreciate that you men represent a very high type in the securities business and that you are intent upon lifting that business to a lofty professional plane. All of you, I am sure, aim to make and keep the business one in which only the highest standards of commercial conduct are cbserved between brokers and their customers. Like the Commission, you must realize that abusive practices in the sale of securities should stop and that uninformed customers should be effectively protected against the overreachings of those who are familiar with the securities market. If this is not your viewpoint, I say it should be. It must not be the Commission's responsibility alone, but yours as well, to see to it that all unworthy representatives of the business are removed from the field.

We all know that, like the chain with the weak link, the securities business, in the eyes of the public, is often only as respectable as its most disreputable representatives. If sharp and abusive practices are engaged in by your members, not only the reputation of the crooked salesman is involved, but the reputation of the industry as a whole.

For at least the past five years the Commission has taken the view that, because of certain inherent characteristics in the securities business, special obligations are owed by dealers to their customers. The dealer, by holding himself out to be a person skilled in security and investment matters, cultivates his customer's trust and confidence. From this confidential relationship rises an implied representation that he will deal fairly with his customer. The Commission's conclusion in this respect was affirmed by the United States Court of Appeals for this Circuit in the case against Charles Hughes & Co.* In his opinion, Judge Clark said that in propounding this theory, the Commission had "correctly interpreted its responsibilities to stop * * * abusive practices in the sale of securities." Now, if a dealer can be said to have this obligation to deal fairly with his customer in principal transactions, certainly a broker acting as his customer's agent and occupying a fiduciary relationship to him owes at the very least a duty to deal fairly with him.

If you and your compatriots will recognize and strictly adhere to the obligation of fair dealing which each of you owes to his customers, you will perform a public service for investors, greatly enhance the standing of your fraternity and, incidentally, lighten beyond measure the administrative and enforcement burden now borne by the Commission.

*193 F (2d) 434 (C.C.A. 2, 1943), cert. den. 321 U. S. 768 (1944).

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.

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. An application is expected to be filed shortly withdrawing statement from registration.

● **Agau Mining Co., Carson City, Nev.**
Jan. 20 (letter of notification) 295,000 shares of common. **Price**—$1 a share. Underwriters by later notification. For mine exploration and development.

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.

● **Airport Advertising, Inc., Washington, D. C.**
Jan. 20 (letter of notification) 1,000 shares ($100 par) 5% cumulative preferred and 1,400 shares ($1 par) common to be sold in units of five shares of preferred and seven shares of common. **Price**—$500 per unit. No underwriting. For retirement of indebtedness and for working capital.

● **Airvet Aviation Mechanical School Inc., New York (2/4)**
Jan. 28 (letter of notification) 300 shares of 6% non-convertible preferred stock (par $100). No underwriting. Price, $100 per share. For purchase of materials for aviation school, including pick-up truck, office furniture, aircraft, hand tools, power machinery and shop supplies.

● **Alban Health Foods Bakery, Inc., Norwood, Ohio**
Jan. 20 (letter of notification) 1,000 shares ($100 par) 6% preferred and 200 shares (no par) common. **Price**—$505 per unit consisting of 5 shares of preferred and one share of common. No underwriting. For erection of new bakery.

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 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. Jan. 23, company filed with the SEC amendments to its recapitalization plan as suggested by the Commission. These provide for escrowing the sum of $2,200,000 to cover the call premium on the preferred stock; increase in terms to Community Water Service Co. and Ohio Cities Water Corp. preferred stock to $180 and $159 a share, respectively, plus accrued dividends at 7% annually from Nov. 1, 1945, compared with $135 and $120 a share offered in the original plan; and the issuance of one share of common stock of the new Water Works Holding Co. for each 20 common shares of Community outstanding.

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.

● **Apollo Records, Inc., New York (2/4)**
Jan. 28 (letter of notification) 20,000 shares of common stock (par 10¢). No underwriting. Price, $5 per share. Proceeds will be added to working capital. Company has sold 15,700 shares of 25,000 filed Aug. 23, 1946 at $5 per share. Balance of 9,300 unsold are to be offered concurrently with present 20,000 shares.

● **Arapahoe Basin, Inc., Denver, Colo.**
Jan. 21 (letter of notification) 46,658 shares of common and 35,759 shares of 6% cumulative preferred. **Price**—$1 per share for each. No underwriting. To construct winter sports resort.

Arkansas Western Gas Co.
June 5 filed 16,197 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.

George Eastwood, President, in letter to stockholders, Dec. 22 said "we have come to the conclusion it will not be necessary to issue any additional shares of common stock" as part of company's refinancing plan.

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. Offering date indefinite.

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.

● **Benson (N. P.) Optical Co., Minneapolis, Minn.**
Jan. 21 (letter of notification) 1,500 shares of B preferred stock. Price, $100 a share. No underwriting. For new equipment, establishment of new locations and general expansion of business.

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. (2/3-7)
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.

(Continued on page 638)

NEW ISSUE CALENDAR

(Showing probable date of offering)

January 30, 1947

Erie RR.------------Conditional Sales Agreement

February 1, 1947

Graybar Electric Co.--------------------Common

February 3, 1947

Berg Plastics & Die Casting Co., Inc.-----Common
Colonial Sand & Stone Co.--------------Common
Gordon Foods, Inc.--------------------Common
Pittsburgh Coal & Chemical Co.----------Common
Signature Recording Corp.----------Capital Stock
Southwestern Associated Telephone Co.---Preferred

February 4, 1947

Airvet Aviation Mechanical School Inc.---Preferred
Apollo Records, Inc.-------------------Common
New York Chicago & St. Louis RR.---Eqpt. Tr. Ctfs.
New York State Electric & Gas Corp.
Noon (EST)-------------------------Preferred
Two to Six Inc.-----------------------Common

February 5, 1947

Norwich & Worcester RR.------------------Bonds

February 11, 1947

New York Central RR. (noon EST)---Capital Stk.

February 13, 1947

Wheeling & Lake Erie RR.-------Equip. Trust Ctfs.

February 20, 1947

Hercules Steel Products Co.--------------Common

(Continued from page 637)

● Birmingham Gas Co., Birmingham, Ala.
Jan. 15 (letter of notification) 45,509 shares ($2 par) common. **Price**—$8 a share. For pro rata subscription by common stockholders: Southern Natural Gas Co. will purchase any unsubscribed shares for investment. For additional working capital.

● Bixler Corp., Cleveland, Ohio
Jan. 24 (letter of notification) 1,500 shares ($100 par) 8% cumulative preferred. Price, $100 a share. No underwriting. To purchase royalty agreements and to purchase manufacturing tools and supplies.

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. Offering date indefinite.

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.

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.

● Capital Silver-Lead Mining Co., Wallace, Idaho
Jan. 21 (letter of notification) 1,00,000 shares of common. **Price**—15 cents a share. **Underwriter**—Standard Securities Corp. and Fidelity Investment Co. For development of mining properties.

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 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.

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 Poultry Farms, Inc., Pleasant Hill, Mo.
Jan. 24 (letter of notification) 10,904 shares ($10 par) common. Price, $10 a share. No underwriting. For acquiring additional plants.

Colonial Sand & Stone Co., Inc., N. Y. (2/3-4)
Aug. 15 filed 250,000 shares ($1 par) common stock. **Underwriters**—Emanuel, Deetjen & Co., and Allen & Co., New York. **Price**—$5 per share. **Proceeds**—Company will receive proceeds from the sale of 125,000 shares and Generoso Pope, President of company, who is selling the remaining 125,000 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.

Colonial Packing Co., Merchantville, N. J.
Jan. 20 (letter of notification) 2,000 shares of 7% cumulative preferred stock (par $100). Underwriting none. **Price**—$100 per share. Working capital, acquisition of land, buildings, machinery, etc.

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.

● Connecticut Mining & Milling Co., Bristol, Conn.
Jan. 22 (letter of notification) 15,000 shares of common. **Price**—$10 a share. No underwriting. For development of mining properties.

Continental Car-na-var Corp.
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-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.

Cristina Mines, Inc., New York (1/31)
Dec. 9 (letter of notification) 270,000 shares of common stock (par $1). **Underwriter**—Newkirk & Banks, Inc. **Price**—$1 per share. **Proceeds**—Property improvements, exploration, purchase of machinery, working capital, etc.

● Crowley's Milk Co., Inc., Binghamton, N. Y.
Jan. 23 (letter of notification) $75,000 5-year 5% debenture note (authorized $500,000). To be sold privately without underwriting, at par, about Feb. 1. Proceeds will be used for the purchase or exchange of $75,000 preferred stock of company now outstanding.

Crown Capital Corp., Wilmington, Del.
Jan. 22 filed 250,000 shares ($1 par) class A common. **Underwriter**—Hodson & Co. Inc., New York, will act as selling agent. **Price**—By amendment. **Proceeds**—Net proceeds will be used as capital for company's subsidiaries engaged in the small loan or personal finance business.

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.

● Deerfield Packing Corp., Bridgeton, N. J.
Jan. 29 filed $2,500,000 3¾% sinking fund debentures, due 1962, and 3,750 shares ($100 par) 4½% cumulative preferred stock. **Underwriters**—Central Republic Co. (Inc.), and A. C. Allyn & Co., Inc., Chicago, and E. H. Rollins & Sons Inc., New York. **Price**—By amendment. **Proceeds**—Company will receive proceeds from the sale of the debentures and 2,000 shares of preferred stock. The remaining 1,750 shares of preferred are being sold by a stockholder. Company will use its proceeds to redeem its outstanding first mortgage 4% sinking fund bonds due 1956 and apply any balance to general corporate funds. **Business**—Manufacture of quick-frozen canned and dehydrated foods.

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.

● Dividend Shares, Inc., New York
Jan. 27 filed 5,000,000 shares (25¢ par) capital stock. **Underwriter**—Calvin Bullock, New York, selling agent. **Price**—Based on market price. **Proceeds**—For investment. **Business**—Investments.

Edelbrew Brewery, Inc., Brooklyn, N. Y.
Dec. 31 filed 5,000 shares ($100 par) 5% non-cumulative preferred. **Underwriters**—None. **Offering**—To be offered

at par to customers, officers and employees of the company. **Proceeds** — For corporated purposes including modernization and improvement of the manufacturing plant and machinery and equipment.

● Edwards Brothers, Inc., Ann Arbor, Mich.
Jan. 21 (letter of notification) 20,000 shares of 5½% cumulative convertible preferred. **Price**—$10 a share. Stock not underwritten but to be sold through Watling, Lerchen & Co., Detroit. Of the total the company will receive proceeds from 12,739 shares and J. W. Edwards, an officer of the company, and family will receive proceeds from 7,261 shares. The company will use its proceeds for additional working capital.

● Electric Steam Cleaner Manufacturing Corp., Chevy Chase, Md.
Jan. 21 (letter of notification) 450 shares (no par) common. **Price**—$100 a share. No underwriting. To finance manufacturing costs.

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.

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

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.

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.

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.

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.

● Golconda Mines, Inc., Denver, Colo.
Jan. 27 (letter of notification) 299,000 shares ($1 par) capital stock. **Price**—$1 a share. No underwriting for mine development.

Gordon Foods, Inc., Atlanta, Ga. (2/3-7)
Jan. 14 filed 150,000 shares ($1 par) common. **Underwriters**—Johnston, Lemon & Co., Washington, D. C., and Allen & Co., New York, are principal underwriters. **Offering**—Company will offer 125,000 shares to the public at $6 a share and the remaining 25,000 shares will be sold to the principal underwriters for investment at $5 a share. **Proceeds**—Company will apply $350,000 of the net proceeds to purchase the Driscoll Food Products, Cincinnati, O., from its co-partners, John J. Driscoll and Clarence H. Wolfe, and approximately $400,000 to finance an expansion program of its new Louisville, Ky., plant.

● Grafton Mining and Milling Co., Inc., Winston, N. Mex.
Jan. 22 (letter of notification) 200,000 shares ($1 par) common. Price, $1 a share. No underwriting. To develop mining properties.

● Graybar Electric Co., Inc., New York (2/1)
Jan. 23 (letter of notification) 14,600 shares of common stock (par $20). No underwriting. Price, $20. Subscription rights will be issued to employees without consideration. For general corporate purposes.

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. Indefinitely postponed.

Gulf States Utilities Co., Baton Rouge, La.
Jan. 20 filed 1,909,968 shares (no par) common. **Underwriter**—None. **Offering**—The shares will be offered for subscription to common stockholders of Gulf States' parent, Engineers Public Service Co., New York. The subscription basis will be one share of Gulf States stock for each share of Engineers common held. **Price**—$11.50 a share. **Proceeds**—Purpose of offering is to carry out a provision of dissolution plan of Engineers approved by the Commission.

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.

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.

Hathaway Bakeries, Inc., Cambridge, Mass.
Jan. 15 filed 120,020 shares ($1 par) common. **Underwriters**—James S. Borck, Bridgeport, Conn.; George E. Drake, Pittsburgh, Pa.; William E. Stanwood, Boston; and Seaboard Allied Milling Corp., also of Boston. **Offering**—Of the total, the company will offer 45,020 shares to officers and employees of the company for subscription at $8.50 a share. The balance of 75,000 shares will be offered for subscription at $8.50 a share to common stockholders on the basis of one-fourth of a new common share for each share held and to holders of certificates for preferred, Class A and Class B stocks on the basis of one-fourth of a new common share for each common share into which their shares has been changed. The subscription offer will expire Feb. 28. Unsubscribed shares will be sold to underwriters at $8 a share. The company said the underwriters do not presently intend to make a public offering of the shares at this time but that when they are so offered they will be sold at the market price. The underwriting discount is 50 cents a share. **Proceeds**—Proceeds will be used to pay a portion of the costs of constructing new bakeries in Boston, Worcester, Mass.; Cohoes, N. Y.; and Providence, R. I. **Business**—Baking business.

Health Institute, Inc., Hot Springs, N. Mex.
Dec. 16 filed 50,000 shares ($10 par) 5½% cumulative prior preferred and 40,000 shares ($10 par) common. **Underwriting**—None. **Offering**—All preferred and common will be offered publicly. **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.

Hercules Steel Products Corp., N. Y. (2/20)
Jan. 16 filed 180,000 shares (10c par) common. **Underwriter**—Dempsey & Co., Chicago. Price by amendment. **Proceeds**—Net proceeds together with a $650,000 bank loan will be used to repay indebtedness to the Marine Midland Trust Co., New York.

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.

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.; The First Boston Corp.; W. E. Hutton & Co. **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 Congress of Pigeon Fanciers, Washington, D. C.
Jan. 20 (letter of notification) 100 shares ($10 par) common and 600 shares ($50 par) preferred. **Price**—$10 a common share and $50 a preferred share. No underwriting. For normal business operations.

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.

● Interstate Mining Corp., Carson City, Nev.
Jan. 24 (letter of notification) 65,000 shares of capital stock. Price, $1 a share. No underwriting. For mine and mill equipment and for operating expenses.

Kaiser-Frazer Corp., Willow Run, Mich.
Jan. 20 filed voting trust certificates for 4,750,000 shares ($1 par) common. **Offering**—Exchange of voting trust certificates for outstanding common. The trustees under an agreement to be dated Feb. 10 and to expire Aug. 10, 1949, will be Joseph W. Frazer and Henry J. Kaiser.

● Keystone Custodian Funds, Inc., Boston
Jan. 28 filed 400,000 shares ($1 par) represented by certificates of participation. **Underwriter**—The Keystone Co. of Boston. **Price**—Based on market price. **Proceeds**—For investment. **Business**—Investments.

● Keystone Custodian Funds, Inc., Boston
Jan. 28 filed 1,000,000 shares ($1 par) represented by certificates of participation. **Underwriter**—The Keystone Co. of Boston. **Price**—Based on market price. **Proceeds**—For investment. **Business**—Investments.

● Kingan & Co., Inc., Indianapolis, Ind.
Jan. 24 filed 6,564 shares ($100 par) 4% cumulative preferred and 174,625 shares ($10 par) common. Underwriter by amendment. Price by amendment. **Proceeds**—All of the securities are being offered by stockholders who will receive proceeds. **Business**—Meat Packing industry.

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.

● Louisville Soy Products Corp., Louisville, Ky.
Jan. 22 (letter of notification) 20,000 shares ($5 par) common. Price, $6.30 a share. No underwriting. For additional working capital.

Mada Yellowknife Gold Mines, Ltd., Toronto
June 7 filed 250,000 shares of capital stock (par 40c). **Undewriters**—Mark Daniels & Co. **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.

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• Massachusetts Steamship Lines, Inc., Boston, Mass.
Jan. 27 (letter of notification) $225,000 6-year 4½% notes and 45,000 shares ($1 par) common. To be offered initially for subscription to stockholders in units of $50 of notes and 10 shares of common to record holders of 10 shares of common. **Price**—$66 per unit. No underwriting. To acquire additional vessel and other equipment and to provide additional working capital.

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.

• Michigan Molded Plastics, Inc., Dexter, Mich.
Jan. 21 (letter of notification) 30,000 shares ($1 par) common. **Price**—$2.50 a share. No underwriting. For additional working capital.

Morton Oil Co., Casper, Wyo.
Jan. 17 (letter of notification) 750,000 shares (10c par) common. **Price**—25 cents a share. **Underwriter**—John G. Perry & Co., Denver, Colo. For development of oil wells and for working capital.

• Midget Stadium, Inc., Baltimore, Md.
Jan. 20 (letter of notification) 90,000 of $1 par Class A stock and 500 shares of Class B no par stock. The Class A stock will be sold at $3 a share. No price was stated for the Class B stock. No underwriting. To operate racing track.

• Miller & Rhoads, Inc., Richmond, Va.
Jan. 22 filed 30,000 shares ($100 par) cumulative preferred stock. **Underwriters**—Scott & Stringfellow and Galleher & Co., Inc., Richmond, Va. Price by amendment. **Proceeds**—Net proceeds, together with a $2,500,000 loan, will be used to retire $1,387,750 of mortgage indebtedness and the balance to reduce temporary bank loans of $4,375,000. **Business**—Department store.

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.

National Plumbing Stores Corp., New York
Jan. 15 (letter of notification) $250,000 15-year 3½% income notes. **Price**—Par. No underwriting. For general corporate purposes.

• National Tank Co., Tulsa, Okla.
Jan. 27 filed 139,700 shares ($1 par) common. **Underwriter**—Paul H. Davis & Co., Chicago. **Price**—By amendment. **Proceeds**—The shares are being sold by Jay P. Walker, President, who will receive proceeds. **Business**—Manufacture of equipment for production fields of the petroleum industry.

Newburgh Steel Co., Inc., Detroit
Aug. 2 filed 30,000 shares of 6% cumulative convertible preferred stock (par $10), and 30,000 common shares ($1 par). **Underwriter**—Charles E. Bailey & Co., Detroit. 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. $204,047 of the proceeds shall be paid to the company to discharge their indebtedness to it.

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. (2/4)
Oct. 30 filed 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); Harriman, Ripley & Co. **Bids Invited**—Bids for the purchase of the preferred stock will be received up to noon (EST) Feb. 4 at Room 2601, 61 Broadway, New York City.

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.

Northwestern Public Service Co.
Dec. 20 filed 26,000 shares ($100 par) 4½% cumulative preferred and 410,000 shares ($3 par) common. **Underwriters**—The First Boston Corp. **Offering**—New preferred will be offered in exchange for 39,852 shares (par $100) 7% cumulative preferred and 6% cumulative preferred, on a share for share basis. Only first 26,000 shares offered in exchange will be accepted. Unexchanged new shares and all of the common shares will be sold to underwriters. Of the total common, the company is selling 110,000 shares and the remaining 300,000 shares are being sold by Bear, Stearns & Co. **Price**—By amendment. **Proceeds**—The company will use its proceeds to redeem old preferred stock.

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.

Oklahoma Gas and Electric Co.
Dec. 23 filed 890,000 shares ($20 par) common. **Underwriters**—To be determined by competitive bidding. Probable bidders: 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). **Offering**—750,000 shares will be sold by Standard Gas & Electric Co., parent, and 140,000 shares will be sold by the company. Standard's shares comprise its entire holdings in Oklahoma Gas common. **Price**—By competitive bidding. **Proceeds**—Oklahoma will use its net proceeds to prepay part of its outstanding serial notes. The balance will be used for property additions. **Bids**—Expected call for bids early in February.

Oro Yellowknife Gold Mines Ltd., Toronto, Can.
Jan. 7 filed 2,000,000 shares ($1 par) capital stock. **Underwriter**—Tellier & Co., New York. **Price**—60 cents a share. **Proceeds**—For expenses and exploration and development.

Pacific Power & Light Co., Portland, Ore.
July 10 filed 100,000 shares ($100 par) preferred stock. **Underwriters**—By amendment. Probable bidders include Blyth & Co., Inc., White, Weld & Co. and Smith, Barney & Co. (jointly); The First Boston Corp., W. C. Langley & Co.; Harriman Ripley & Co. **Offering**—Company proposes to issue the 100,000 shares of new preferred for the purpose of refinancing at a lower dividend rate the 67,009 outstanding preferred shares of Pacific and the 47,806 preferred shares of Northern Electric Co., in connection with the proposed merger of Northwestern into Pacific. In connection with the merger, the outstanding preferred stocks of Pacific and Northwestern will be exchanged share for share, with cash adjustments, for the new preferred stock of Pacific, the surviving corporation. **Offering price**—To be supplied by amendment.

Pal Blade Co., Inc., New York
June 28, 1946 filed 227,500 shares ($1 par) capital stock. **Underwriters**—F. Eberstadt & Co., Inc. **Offering**—225,000 shares are outstanding and are being sold by 10 stockholders, and 2,500 shares are being sold by A. L. Marlman to all salaried employees. Issue may be withdrawn.

Palmetto Fibre Corp., Washington, D. C.
August 16 filed 4,000,000 shares (10¢ par) preference stock. **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, Fla., 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. **Underwriter**—Tellier & Co. withdrew as underwriters.

• Peninsula Broadcasting Co., Salisbury, Md.
Jan. 23 (letter of notification) 2,422 shares ($10 par) common. Price, $20 a share. To be offered for subscription to stockholders. No underwriting. For working 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.

Petroleum Heat & Power Co., Stamford, Conn.
Dec. 30 filed 912,464 shares ($2 par) common. **Underwriters**—None. **Offering**—Shares will be offered in exchange for entire outstanding capital stock of Taylor Refining Co., consisting of 8,946 shares (no par) common with an underlying book value of $2,458,224 as of last Sept. 30. At a meeting of stockholders, Dec. 23 company authorized an increase in common stock from 1,000,000 to 2,000,000 shares and also authorized the issuance of the present offering in exchange for the Taylor stock. Approximately 70.9% of the common stock is held under a voting trust agreement of Aug. 15, 1945, which it is expected will be terminated upon the acquisition of the Taylor stock.

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.

Philadelphia Dairy Products Co., Inc.
Dec. 26 (letter of notification) 2,907 shares of first preferred stock. **Underwriters**—Stock will be sold outright to Stroud & Co., Inc., Butcher & Sherrerd, and Glover & MacGregor, Inc. who will sell same to their customers at market but at not exceeding $102 per share. **Proceeds**—Will be used for working capital.

Pig'n Whistle Corp., San Francisco
Dec. 26 filed 50,000 shares (par $7.50) cumulative convertible prior preferred $2 dividend stock. **Underwriter**—G. Brashears & Co., Los Angeles. Price by amendment. **Proceeds**—23,481 shares are being issued by company and proceeds will be used in connection with recent purchase of four Chi Chi restaurants and cocktail lounges in Long Beach, Riverside, Palm Springs and San Diego and for working capital.

• Pittsburgh (Pa.) Coal & Chemical Co. (2/3)
Jan. 28 (letter of notification) 20,000 shares of common stock (no par). No underwriting. It is proposed to sell the stock on the New York Stock Exchange at the market. Proceeds for working capital.

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.

• Prosperity Co., Inc., Syracuse, N. Y.
Jan. 23 (letter of notification) 5,528 shares of class B common. Price, $16 a share. No underwriting. For additional working capital.

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.

Regal Shoe Co., Whitman, Mass.

Jan. 8 (letter of notification) 9,000 shares ($1 par) common on behalf of John J. Daly, President. Price at market. Underwriters—Van Alstyne, Noel & Co., and Cohu & Torrey, New York.

Reiter-Foster Oil Corp., New York

Jan. 8 (letter of notification) 105,800 shares (50c par) common. Price—85 cents a share. Underwriter—The Federal Corp., New York. For working capital.

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.

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.

● **Rose (Paul H.) Corp., Norfolk, Va.**

Jan. 20 (letter of notification) 25,000 shares ($10 par) common stock "B." Price—$12.50 a share. For business expansion.

● **San Jose (Calif.) Water Works**

Jan. 28 filed 30,000 shares ($25 par) common stock. Underwriters—To be determined by competitive bidding. Probable underwriters: Kuhn, Loeb & Co., and Union Securities Corp. (jointly); Blyth & Co., Inc. Price—By competitive bidding. Proceeds—To restore working capital and to finance part of the cost of future expansion. Business—Water works business.

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.

Scruggs-Vandervoort-Barney, Inc., St. Louis, Mo. (2/6)

Jan. 16 filed an unspecified number of shares of $4.50 cumulative preferred stock, Series A, stated $100 a share. Underwriters — Union Securities Corp., New York; Boettcher and Co., Denver; and G. H. Walker & Co., St. Louis. Price by amendment. Proceeds—To satisfy the appraisal rights of shareholders who objected to company's plan of consolidation; to redeem at $105 a share, plus accrued dividends, 10,000 outstanding shares of 4½% cumulative preferred of Denver Dry Goods Co., which will then be a wholly-owned subsidiary. Any balance will be used for corporate purposes. Business—Operation of department store. The company will be organized next month by the consolidation of a predecessor corporation of the same name and Neybar, Inc., a subsidiary of that corporation.

● **Signature Recording Corp., New York (2/3)**

Jan. 27 (letter of notification) 295,000 shares of capital stock (par 25¢). Underwriter—Willis E. Burnside & Co., Inc. Price—$1 per share. Proceeds—General corporate purposes and working capital. Business—Recording, manufacturing and selling phonograph records.

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.

● **Southern Hotel Supply Co., Washington, D. C.**

Jan. 21 (letter of notification) 1,000 shares ($100 par) 5% cumulative preferred. Price—$100 a share. No underwriting. To acquire new business location.

Southwestern Associated Telephone Co., Dallas, Tex. (2/3-4)

Jan. 13, 32,000 shares (no par) $2.20 cumul. preferred. Underwriter—Paine, Webber, Jackson & Curtis, New York. Price by amendment. Proceeds—To pay $1,569,050 demand note held by Southwestern's parent, General Telephone Corp., and to reimburse company's treasury.

● **Stillwell Corp., New Orleans, La.**

Jan. 22 (letter of notification) 2,750 shares ($100 par) Class A common. Price—$100 a share. No underwriting. For purchase of machinery and equipment and other items.

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.

● **Suppiger (G. S.) Co., St. Louis, Mo.**

Jan. 21 (letter of notification) 2,000 shares ($100 par) 5% cumulative preferred. Price—$100 a share. No underwriting. For expansion purposes.

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.

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 $56,906,590, exclusive of interest and dividends.

Transgulf Corp., Houston, Texas

Jan. 13 (letter of notification) 30,000 shares (no par) common. Price—$10 a share. Underwriter—South & Co., Houston. For development of oil and gas properties.

● **Tung-O Paint & Varnish Corp. of California, Los Angeles**

Jan. 24 (letter of notification) 2,500 shares ($10 par) stock to be offered at $10 a share and 5,018 shares to be issued to Arthur N. Taylor and Gerald J. Ellis, officers of the company. For promotional services and transfer of copartnership business to company. No underwriting. General corporate purposes.

● **Two to Six, Inc., New York (2/4)**

Jan. 28 (letter of notification) 40,000 shares of common stock (no par). No underwriting. To be offered to present stockholders of record Jan. 1 in ratio of four new shares for each share held. Rights expire March 1. Price, $2 per share. To pay expenses, etc., of publishing a magazine.

United Air Lines, Inc., Chicago

Jan. 20 filed 94,773 shares ($100 par) cumulative preferred. Underwriting—Harriman Ripley & Co., New York. Offering—For subscription to common stockholders in the ratio of one share for each 19.5 shares of common held. Unsubscribed shares will be purchased by underwriters. Price by amendment. Proceeds—For general corporate purposes. The company plans to spend about $70,000,000 for new flight equipment, new ground facilities and communications equipment.

U. S. Television Manufacturing Corp., New York

Nov. 4 filed 200,000 shares (par $1) 25c cumulative convertible preferred and 230,000 shares of common (par 50c). Price of preferred $5 per share. Of the common 30,000 shares are reserved for the exercise of warrants up to Jan. 15, 1950 at $3.50 per share and 200,000 are reserved for the converison of the preferred. 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.

Utah Chemical & Carbon Co., Salt Lake City

Dec. 20 filed $700,000 15-year convertible debentures and 225,000 shares ($1 par) common. The statement also covers 105,000 shares of common reserved for conversion of the debentures. Underwriter—Carver & Co., Inc., Boston. Price—By amendment. Proceeds—For plant construction, purchase of equipment and for working capital.

Verde Exploration, Ltd., New York

Jan. 20 filed 405,000 shares ($1 par) capital stock. Underwriter—None. Offering—To be offered privately to a small group of subscribers to the original syndicate and to stockholders of the Clemenceau Mining Corp. Price—At par. Proceeds—To effectuate the purchase agreement with the Clemenceau Mining Corp. for acquiring mining properties in Arizona.

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.

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.

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 estimated at a minimum of $6,500,000 together with a $7,500,000 bank loan, toward payment of its promissory notes and to finance company's equipment and facilities expansion program now under way.

White's Auto Stores, Inc.

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. Expected to file new financing plan at early date.

● **Wilson Rubber Co., Canton, Ohio**

Jan. 20 (letter of notification) 14,772 shares ($5 par) common. Price—$5 a share. No underwriting. To provide additional working capital.

Wisconsin Power & Light Co., Madison, Wis.

May 21 filed 550,000 shares ($10 par) common stock to be sold at competitive bidding. Underwriters—By amendment. Probable bidders include Merrill Lynch, Pierce, Fenner & Beane; White, Weld & Co.; Glore, Forgan & Co., and Harriman Ripley & Co. (jointly); The Wisconsin Co., and Dillon, Read & Co. Proceeds—Part of the shares are to be sold by Middle West Corp., top holding company of the System, and part by preference stockholders of North West Utilities Co., parent of Wisconsin, who elect to sell such shares of Wisconsin common which will be distributed to them upon the dissolution of North West Utilities Co.

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.

(Continued on page 642)

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)

(Continued from page 641)

• Australia, Commonwealth of
Jan. 28 expected an offering in February in the American market of $45,000,000 bonds to refund the 4½s of 1956, with Morgan Stanley & Co. This will be the third issue in this market by the Commonwealth since Labor Day.

• Chicago Transit Board
Jan. 28, representatives of the Chicago Transit Board will confer with Harris, Hall & Co. (Inc.), the First Boston Corp., and Blyth & Co., Inc., Feb. 4, in New York, on a plan for the bankers and associates to purchase new securities in connection with the purchase of the Chicago Surface Lines. A total of about $90,000,000 in new securities is involved. A syndicate of 140 firms has been formed by the bankers, it is said.

• Cleveland (Ohio) Electric Illuminating Co.
Registration of 1,714,525 common shares expected about Feb. 17 by the North American Co. for offering to latter stockholders at $15 per share on basis of one share of Cleveland for each five shares of North American.

• Detroit Edison Co.
Jan. 22 directors announced that they are studying a program for additional financing which will be required to take care of company's construction budget in next few years. Exact form of financing now yet determined, but it is reported company may sell $20,000,000 new bonds this year. Probable bidders for new securities: The First Boston Corp.; Halsey, Stuart & Co. Inc.; Coffin & Burr; Spencer Trask & Co.; Dillon, Read & Co. Inc.

• Erie RR. (1/30)
Bids will be received until noon (EST) Jan. 30 by company in Cleveland for lowest interest at which bidders will provide not to exceed $696,000 to finance about 80% of cost of 200 70-ton gondola cars to be built by Bethlehem Steel Co. The equipment is to be issued under conditional sale agreements.

• Keystone Steel & Wire Co.
Jan. 27, Keystone Steel & Wire Co. and its subsidiary, National Lock Co., have contracted to purchase, subject to approval by stockholders at a special meeting on Feb. 21, 183,902 shares of Keystone stock from the Forest Park Home Foundation and W. R. Sommer, President of Keystone. On a basis of $40 a share, $7,356,080 is to be paid. Of the total number of shares to be sold, 137,102 comprise the entire holdings of the Foundation and 46,800 are for the Sommer family account. Keystone will acquire 142,632 shares for retirement and National Lock Co. will buy the remaining 41,270. To supplement cash on hand the Keystone will issue $2,500,000 of short-term debenture notes and National Lock Co. $1,500,000.

• Montreal (City of)
Jan. 28 reported city is exploring the advisability of early sale in this country of about $77,000,000 bonds to retire outstanding higher cost debt. Probable bidders if bonds are sold in United States include Harriman Ripley & Co. Inc., and Dominion Securities Corp. (jointly); The First Boston Corp.; Smith, Barney & Co.; Glore, Forgan & Co.; Halsey, Stuart & Co. Inc.; Blyth & Co., Inc., and Shields & Co. (jointly).

• New York Central RR. (2/11)
Chesapeake & Ohio Ry. is inviting tenders for the sale to it of New York Central RR. stock. Sealed tenders are to be submitted to R. J. Bowman, President of C&O, at Room 745 Chrysler Bldg., New York, on or before noon (EST) Feb. 11.

New York Chicago & St. Louis RR. (2/4)
Company has issued invitations for bids to be considered Feb. 4 for $1,000,000 of equipment trust certificates. The certificates will be dated Feb. 15, 1947, and will mature in 10 equal annual instalments Feb. 15, 1948-57. Probable bidders include, Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harris Hall & Co. (Inc.) and Midwestern banks and trust companies.

Norwich & Worcester RR. (2/5)
The company, a leased line unit in the New York, New Haven & Hartford RR. system, will receive bids up to noon (EST) Feb. 5 at its Boston office for the sale of $1,800,000 first mortgage bonds, series B, dated March 1, 1947, and maturing March 1, 1967. The interest rate will be that named by the successful bidder. Probable bidders include Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler.

• Southwestern Public Service Co.
Jan. 28 company is expected to raise new capital through the offering of rights to stockholders to subscribe to additional preferred and common stock.

• Wheeling & Lake Erie Ry. (2/13)
The company has issued invitations for bids to be considered Feb. 13 for $1,680,000 in equipment trust certificates. The certificates will mature serially from Sept. 1, 1947 to March 1, 1957.

Our Reporter's Report

Gilt-edge investments have not been visibly disturbed by the current renewal of talk involving possible firming of short-term interest rates. Demand is still persistent and even should the much discussed "flexibility" in short-term rates materialize, it is not expected that the cost of money for intermediate and long-term would be affected.

The long-term market naturally takes its cue from Treasury policy and there have been repeated assurances from government circles, including that in the President's budget message, that the Federal authorities remain committed to an easy money basis.

While demand for high-grade issues has been sufficient to sustain the market, institutional investors who are the chief source of such buying have held to a cautious policy, with yields still the key to their operations.

There is no disposition on their part to follow prices up. Rather the tendency is to pull out of the market when the tide gets too strong and to sit back and wait for prices to slip off.

Insurance companies in particular, have been holding to a carefully prepared schedule and while their incoming funds present a problem, from an investment standpoint, they refrain from walking in and bidding the market up in order to put such funds to work.

N. Y. State Electric & Gas

New York State Electric & Gas Corp's 150,000 shares of $100 par cumulative preferred stock will be up for competitive bidding next week unless there is a last minute change in plans.

At least three banking groups are expected to seek this issue which will provide the company with funds needed for refinancing certain of its obligations.

The company sold $13,000,000 of first mortgage bonds recently as a part of the same operation. Offered on a 2.61% yield basis, this issue at last reports was about 75% distributed with the balance reported as gradually cleaning up.

Firestones at Premium

Bankers who handled the public offering of Firestone Tire & Rubber Co.'s $25,000,000 of 2⅝% debentures found the market in a receptive mood.

Featured by a substantial sinking fund which would retire the entire issue by maturity the debentures attracted brisk demand when offered at par on Tuesday.

The call for the issue was so persistent that before the closing of business for the day the quotation in "when-issued" dealings was 100¾ bid—101 asked.

Central S. W. Utilities

Quick sale was forecast for the 1,342,102 shares of Central & South West Utilities Co. common stock expected to reach market today.

This issue was sold in competitive bidding on Monday with a difference of only about six cents separating the bids of the two banking syndicates which sought the stock.

The winning bid was $10.95 a share with the successful syndicate making ready to reoffer the shares publicly at $12 a share. Pre-sale inquiry, according to dealers, indicated a quick closing of subscription books.

Another Big One Ahead

Banking groups are putting the finishing touches to their calculation for the forthcoming competitive biding for 890,000 shares of Oklahoma Gas & Electric Co. common stock which will be offered soon, perhaps next week.

This huge block of stock, being marketed by Standard Gas & Electric Co., and the issuing company itself, the latter accounting for 140,000 shares of the total, is being undertaken partly to conform to provisions of the Holding Company Act and partly to obtain funds for new construction by the issuing utility.

Two large syndicates are expected to be in the running for this stock which is one of many such similar undertakings that appear to be making up for the current year.

With Herrick in St. Louis
(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, MO.—William S. Madden has become associated with Herrick, Waddell & Co., Inc., 418 Locust Street. In the past he was with H. L. Ruppert & Co.

With Cannell, French & Copp
(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS.—Augustine A. Mandino has become affiliated with Cannell, French & Copp, 49 Federal Street.

With Kennedy Peterson
(Special to THE FINANCIAL CHRONICLE)

HARTFORD, CONN. — Rhea-Clare B. Simpson has been added to the staff of Kennedy-Peterson, Inc., 75 Pearl Street.

With W. H. Heagerty
(Special to THE FINANCIAL CHRONICLE)

ST. PETERSBURG, FLA. — James R. McConnell is now connected with W. H. Heagerty & Co., Florida Theatre Building.

Overhauling of WAA Urged by Senate Group

A surplus property subcommittee of the Military Affairs Committee of the Seventy-Ninth Congress on Jan. 12 recommended "a complete overhauling" of the War Assets Administration "with respect to top personnel, internal organization and policies," according to Washington Associated Press advices an Jan. 12, which added: The report of the subcommittee, headed by Senator Joseph C. O'Mahoney (D-Wyo.) declared that after three years of surplus disposal "the job is only about one-third completed."

In urging an overhauling of WAA policy and top management, Senator O'Mahoney attributed a "major share" of responsibility "for the near breakdown" of the disposal program to military men who have been in charge.

Saying that these men have "encountered great difficulties in meeting the requirements of the job at hand," O'Mahoney added:

"This is not said in any spirit of criticism of the personnel, who, in most instances, have served under orders."

Maj. Gen. Robert M. Littlejohn is WAA administrator at present. His predecessor was Lieut. Gen. Edmund B. Gregory.

O'Mahoney's report recommends legislation to:

1. Protect the synthetic rubber industry "in the interest of national defense, (John R. Steelman, assistant to the President, announced Saturday that Mr. Truman would recommend legislation to maintain a "minimum synthetic rubber industry").
2. Assure maintenance of an adequate network of war-built airports.
3. Authorize WAA to condemn land where the Government constructed plants during war on property it did not own.
4. Maintain in stand-by condition plants vital for national security.

The report also urges prompt consideration by Congress of WAA's latest survey on disposal of the Big and Little Inch wartime pipelines.

The report contends that WAA "has paid lip service only to the antimonopoly objectives of the (surplus property) act which were supposed to reverse the accelerated trend toward concentration" experienced during the war.

The subcommittee says, too, that "contrary to provisions of the act," WAA and congressional committees "have placed a high return to the Government ahead of antimonopoly considerations."

With Slayton & Co.
(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — Harry G. Norstrom and Harry A. Zweig have become affilated with Slayton & Co., Inc., 135 South La Salle Street.

Joins White Phillips Staff
(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—Robert J. Taaffe has become associated with White-Phillips Company, Inc., 38 South Dearborn Street.

With R. H. Johnson & Co.
(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS.—Leonard C. Ricketson has been added to the staff of R. H. Johnson & Co., 30 State Street.

With Slayton in St. Louis
(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, MO.—Oscar L. Beal has joined the staff of Slayton & Company, Inc., 408 Olive Street.

With Stranahan, Harris
(Special to THE FINANCIAL CHRONICLE)

TOLEDO, OHIO—Ross Harris has been added to the staff of Stranahan, Harris & Co., Inc., Ohio Building.

Contracts for Residential Construction Established New Record in 1946

Investment commitments for residential construction reached an all-time high in the 37 states east of the Rocky Mountains during 1946, it was reported on Jan. 13, by F. W. Dodge Corporation, a fact-finding organization for the construction industry.

The total valuation of contracts awarded for residential construction last year in the 37 states was $3,142,102,000 which compares with $2,788,318,000 for 1928, the last previous record-breaking year.

On the basis of floor area of residential building called for in contracts awarded, however, 1946 stood fourth, higher residential floor area totals being shown for 1928 with 568,382,000 square feet, 1925 with 559,499,000, and 1926 with 521,062,000. The total floor area called for in last year's residential contracts was 516,256,000, thus reflecting current higher building costs, the Dodge corporation reported.

Last year's residential contracts called for the construction of 446,625 dwelling units distributed as follows: in apartment buildings, 76,372; in one-family dwellings built for owners' occupancy, 50,459; in one-family dwellings built for sale or rent, 294,491; in two-family dwellings, 21,794, and in combination projects, such as stores and apartments, 3,509.

On the basis of dollar volume of awards, 5% of last year's residential contracts were for projects classified as publicly owned.

Government restrictions on non-residential construction and heavy engineering works were instrumental in holding the total volume of this classification of projects to a valuation of $4,347,620,000 to bring the year's value of all building and construction contracts to $7,489,722,000, the second highest total on record. Construction contracts totaled $8,255,061,000 in the 37 eastern States in 1942, setting an all-time record for all classifications of construction.

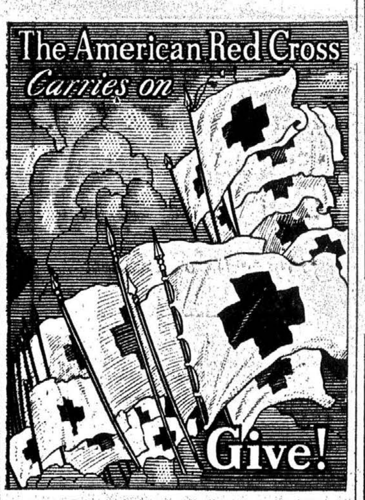
Re-Elect Officers of Corporate Fiduciaries

The Corporate Fiduciaries Association of New York City on Jan. 28 reelected all officers. James M. Trenary, Vice-President and Secretary of United States Trust Company of New York, is President; William A. Eldridge, Vice-President of Central Hanover Bank & Trust Co., is Vice-President, and Erwin A. Berry, Trust Officer of Manufacturers Trust Co., is Secretary-Treasurer. A. Nye Van Vleck, Vice-President of the Guaranty Trust Company of New York, Stewart L. DeVausney, Vice-President of the Bank of New York, and Clement M. Cooder, Trust Officer of the Fulton Trust Co., were elected to the Executive Committee for a three-year term.

With Heath & Co.

(Special to THE FINANCIAL CHRONICLE)

ELGIN, ILL. — Charles R. Schrauf is now with Heath & Co., Tower Building.



Support of All-Year Sat. Closing Advocated By N. Y. Sav. Banks

Full support of all-year Saturday closing, the right to invest in Canadian bonds, an increase in the savings bank life insurance limit from $3,000 to $5,000 and outright termination of the mortgage moratorium are major points in the program of the savings banks of New York State for 1947 as a result of action taken on Jan. 14 at the State Association's annual all-day mid-winter conference in New York City at the Hotel Biltmore. The conference voted to support legislation for permissive year-round Saturday closing and also to bring about, through group action, a uniform date on which to make them effective in each area of the State, assuming legislation is enacted. Myron S. Short, Chairman of the Committee on Legislation, pointed out that the New York State Bankers Association was sponsoring a bill already introduced by Assemblyman D. Mallory Stevens and that officials of the Savings Banks Association had been consulted as to its terms. The bill, if passed in its present form, becomes effective upon signature by the Governor.

While it was pointed out that in some upstate communities it might not be practical to close on Saturdays at the present time, there is nothing in the regulations that would prevent banks in those communities closing a part of some other day during the week, says the Association, which states that this practice has been followed in some areas during the summer months in recent years.

A uniform effective date for closing, particularly for banks in the Metropolitan area, was urged by John O. Dornbusch, Chairman of the Association's Committee on Service Development. "If all banks that are going to close on Saturdays would start to do so on the same date, it would tend to eliminate confusion in the public mind," he said. At the same time he urged that each bank review its banking hours to determine whether those presently in force best meet the convenience of depositors in the respective areas.

A bill to permit investment by the savings banks in bonds of the Canadian Government, its provinces and, with certain restrictions as to debt limit, its cities, was outlined by A. Edward Scherr, Chairman of the Investment Committee. These securities, all payable in U. S. dollars, if approved, would add $1.87 billion to the list of legal investments. The Association advices also state:

"Strenuous opposition of the continuation of the Mortgage Moratorium beyond July, 1947 was unanimously voted by the Conference. It was pointed out that now, if ever, mortgagees were in a position to make payment on account of principal on their debts and, also, that according to a survey made in the Metropolitan area among the savings banks, over 70% of the mortgages had already been taken out through voluntary agreement between mortgagor and mortgagees. The minority who continue to seek its protection, in nearly every instance, could now make arrangements to pay off their mortgage indebtedness on a reasonable basis.

"Other subjects pertaining to mortgages discussed by Fred C. Lemmerman, Chairman of the Mortgage and Real Estate Committee, were the amendment to the law permitting a broadening of the regulations for lending under the GI Bill of Rights, extension of the savings banks mortgage lending to areas outside of New York State and appropriate legislation permitting the savings banks to invest in mortgages on prefabricated houses.

"A bill to increase the limit of Savings Bank Life Insurance from $3,000 to $5,000 on an individual life was also approved. In reporting on this subject, E. B. Schwulst, Chairman of the Savings Bank Life Insurance Committee pointed out that since the original enabling act was passed in 1938 the purchasing power of the dollar has dropped by at least 40%. Thus, the $3,000 limitation imposed at that time amounts, in effect, to a limitation today of $1,800 and that an increase to $5,000 at the present time would only be equivalent, in terms of purchasing power, to the $3,000 limitation 9 years ago. Furthermore, there have been some substantial increases in wages for all groups so that there are hundreds of thousands of workers today who can well afford to purchase $5,000 of low-cost savings bank life insurance. Surveys of present policy holders indicate a very high percentage would like to purchase additional savings bank life insurance coverage if they are permitted to do so. He indicated that considerable opposition to this measure was expected from both the life insurance companies and their agents who have consistently opposed any extension of such insurance in this and other states."

In a visual presentation, Robert W. Sparks, Chairman of the Committee on Public Information, illustrated the wide variety and volume of advertising and promotional material available to the banks through their cooperative advertising campaign and the impact that it has upon the 14 million people of New York State.

SITUATIONS WANTED

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Gibson Heads 1947 Red Cross Drive

Harvey D. Gibson, President of the Manufacturers Trust Company of New York, who served in the same capacity during last year's drive, was appointed on Jan. 18 to be National Chairman of the 1947 Red Cross Fund, for which the campaign goal is $60,000,000. "The American Red Cross," said Basil O'Connor, Chairman of the Red Cross, according to a dispatch from Washington to the New York "Times", "is extremely fortunate to have Mr. Gibson's excellent leadership again in 1947."

In accepting the chairmanship, Mr. Gibson it is learned from the "Times" said:

"I am delighted to be able to serve again and I am convinced Americans everywhere will be glad to help in this great cause. The most important American Red Cross task in the coming year is continuing its services to the armed forces and to veterans and their families.

"Since war's end it has been necessary for the Red Cross to increase vastly its activities in veterans' hospitals. The number of hospitalized veterans now approximates 112,000 and the peak is still ahead.

"We all wish to fulfill our responsibility to these men as well as to each community throughout the United States when disasters or emergency needs arise. These are among the many reasons why the 1947 Red Cross appeal deserves a generous and prompt response."

A previous item on the Red Cross campaign appeared in our issue of Jan. 23, page 521.

Bonney & Moor Adds

(Special to THE FINANCIAL CHRONICLE)

WORCESTER, MASS.—Henry Freeman has become associated with Bonney & Moor, Inc., 390 Main Street.

With Merrill Lynch Firm

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF. — David B. T. Myrick has joined the staff of Merrill Lynch, Pierce, Fenner & Beane, 523 West Sixth Street.

With Geo. K. Baum Co.

(Special to THE FINANCIAL CHRONICLE)

KANSAS CITY, MO.—Russell E. Smith has joined the staff of George K. Baum & Co., Inc., 1016 Baltimore Avenue.

Goulet & Stein Members of NY Security Dealers Ass'n

The firm of Goulet & Stein, 27 William Street, New York City, has been admitted to membership in the New York Security Dealers Association.

DIVIDEND NOTICES

The American Tobacco Company
INCORPORATED
111 Fifth Avenue New York 3, N.Y.

166TH COMMON DIVIDEND *and* AN EXTRA DIVIDEND

A regular dividend of Seventy-five Cents (75¢) per share and an extra dividend of Fifty Cents (50¢) per share have been declared upon the Common Stock and Common Stock B of THE AMERICAN TOBACCO COMPANY, payable in cash on March 1, 1947, to stockholders of record at the close of business February 10, 1947. Checks will be mailed.

EDMUND A. HARVEY, *Treasurer*
January 28, 1947

THE BUCKEYE PIPE LINE COMPANY
30 Broad Street
New York, N. Y., January 29, 1947.

The Board of Directors of this Company has this day declared a dividend of Twenty (20) Cents per share on the outstanding capital stock, payable March 15, 1947 to shareholders of record at the close of business February 18, 1947.

C. O. BELL, Secretary.

Borden's
DIVIDEND No. 148

An interim dividend of sixty cents (60¢) per share has been declared on the capital stock of *The Borden Company*, payable March 1, 1947, to stockholders of record at the close of business February 11, 1947.

E. L. NOETZEL
January 28, 1947 Treasurer

DIVIDEND NOTICES

EATON MANUFACTURING COMPANY
Cleveland, Ohio

DIVIDEND NO. 88

The Board of Directors of Eaton Manufacturing Company has declared a dividend of Seventy-five Cents (75c) per share on the outstanding common stock of the Company, payable February 25, 1947, to shareholders of record at the close of business February 5, 1947.

January 24, 1947
H. C. STUESSY
Secretary & Treasurer

WOODALL INDUSTRIES, INC.

A regular quarterly dividend of 31¼c per share on the 5% Convertible Preferred Stock ($25.00 par value) has been declared payable March 1, 1947 to stockholders of record February 15, 1947.

M. E. GRIFFIN,
Secretary-Treasurer.

Southern Railway Company

DIVIDEND NOTICE

New York, January 28, 1947.

Dividends aggregating $3.75 per share on the Preferred Stock of Southern Railway Company have today been declared, payable as follows:

Amount	Date of Payment	To Stockholders of Record at the Close of Business on:
$1.25	Mar. 15, 1947	Feb. 15, 1947
1.25	June 16, 1947	May 15, 1947
1.25	Sept. 15, 1947	Aug. 15, 1947

A regular quarterly dividend of 75¢ per share on 1,298,200 shares of Common Stock without par value of Southern Railway Company has today been declared, out of the surplus of net profits of the Company for the fiscal year ended December 31, 1946, payable on March 15, 1947, to stockholders of record at the close of business on February 15, 1947.

Checks in payment of these dividends on the Preferred and Common Stocks will be mailed to all stockholders of record at their addresses as they appear on the books of the Company unless otherwise instructed in writing.

J. J. MAHER, Secretary.

CIO Union Says It Doesn't Know How Much Longer It Can Hold Off Strike at Irving Trust Co.

(Continued from page 595)

other banks before. Only last Thursday in a press release, the union alleged that "... the Manufacturers Trust Co. is fronting for the entire banking field in attempting of forestall union organization and collective bargaining ..." The Irving Trust itself says it is fighting only its own case.

The bank says that, since it does not know whether there will be a strike, in the first place, or when it will be called, if there is really to be one, and because its security employees would be leaving their posts in such a strike, it hired the private detectives so that it would have someone to guard its assets in case the bank found itself suddenly without the services of its regular guards. The union, the bank claims, has called three short work stoppages by its members at the bank already. The bank admits further that it is—as the union charges—maintaining a 24-hour vigil in the dispute though, in a sense, there is nothing unusual in this since it has always maintained a 24-hour watch over its vaults and other property.

The private detectives, however, are not the "strikebreakers" the union says they are, the bank alleges. It is stipulated by contract, the bank avers, that the detectives' sole job is to protect the assets of the bank, that no detective is to perform any type of work ordinarily performed by the regular employees of the bank. Also, the bank says, the detectives are entirely unarmed. Councilman Michael J. Quill of the Bronx demanded in a resolution introduced in the City Council on Tuesday a police investigation of the use "armed muscle-men" by Irving Trust to intimidate the employees of the bank. Pointing out that Irving Trust has "reverted to the middle-ages of labor relations," Mr. Quill wants the Police Commissioner to investigate the gun permits of the detectives hired by the bank.

The union claims that even a Vice-President of the bank sleeps nights in the directors' room which, equipped now with a cot, serves very conveniently as a sort of dormitory. The union says it is protesting against this to the health authorities. The union charges further that, afraid of a slowdown on the part of its elevator operators, the bank has disconnected the "slow" controls in the elevators of the building owned and operated by it at 1 Wall Street in which it has its main office. The union contends consequently that in the event of an emergency the elevators could be brought to a stop only by means of the emergency switch which would be certain to cause injuries to the passengers. The union says it is protesting against this to the public safety authorities.

The bank believes it can't possibly be of any concern to the union who works or sleeps in the bank at night. It is the intention of the bank, however, a spokesman said, to safeguard its assets and, if necessary, to feed and give shelter to those of its employees who, in the event of a strike by the security and maintenance employees, would want to remain at their posts. The bank has no comment to make regarding the disconnecting of the "slow" controls on the elevators on the basis that the union's charge is obviously ridiculous.

Charges that the Irving Trust Co. is refusing to bargain in good faith and violating the law by "singly intimidating the elevator operators" are contained in telegrams sent by the union on Tuesday to Atty. Gen. Nathaniel Goldstein and Rev. William J. Kelley of the State Labor Relations Board. "The workers (the elevator operators)," the telegram states, "are being called into Vice-President Dowell's office and told to accept company's terms because company will not consent to general increases, job security or arbitration."

The argument between the union and the bank also has a strong political angle beyond the implications of the Quill action. According to the union, "while Irving Trust and other banks shriek for legislation to curb unions and other democratic expressions of the people, it is organizations such as Irving Trust who are irresponsible." The union has wired to the U. S. Senate Labor Committee asking permissions for a group of its members to appear at hearings on "anti-labor" bills now pending. The union declares it has not yet received a reply to its telegram.

The dispute at Irving Trust is essentially one over wages, union security, job security and hours of work, all subjects over which negotiators for a union contract usually wrangle. The union is asking for a $10 a week across-the-board increase in wages but all the bank is willing to offer, the union says, is increases ranging from 50 cents to $6 a week. The bank claims the union's demands in this respect would upset the entire wage structure built upon the basis of job classification throughout the "street." The union says the bank is refusing to agree even to "less than union security," that the bank is opposed to the arbitration of disputes centering around the issue of job security and is insisting upon an eight-hour day in the event of a five-day week in the industry.

The bank says it recognizes differences in degrees of the closed shop but that it isn't going to do its collective bargaining on this issue in the newspapers. So far as the question of job security is concerned, says the bank, the union wants seniority recognized separately by individual branches of the bank whereas the bank wants to tackle the subject from the overall view, listing employees according to their length of service as a group regardless of the particular office in which they may chance to be working. The union claims the pay increases it is asking for the employees of Irving Trust would cost the bank approximately $2,250 a week which is only a fraction of the $12,000 a week the bank is paying now to the Burns Detective Agency and the United Detective Agency for the private detectives.

The CIO won a State Labor Board election among the guards, messengers, vault attendants, watchmen, elevator operators and porters of Irving Trust, 146-61, last Oct. 21 and negotiations between the union and the bank for a contract commenced Nov. 7. The State Mediation Board has also attempted without final and decisive results to effect a settlement in the case. The union reiterated its strike vote on Jan. 18, expressing a desire at the same time, however, to submit the entire matter to arbitration.

The CIO has been trying desperately to gain a foothold in the banking industry on Wall Street just as it and the United Financial Employees, an AFL union, has been trying to gain entrance into Wall Street's brokerage industry. The AFL is solidly entrenched in the New York Stock Exchange and the Curb but, like the CIO, is seeking now to organize the employees of the various brokerage houses. In each instance, it is the more-or-less unskilled worker that the union chieftains have in mind, the men whom, one union spokesman admitted, could be trained in a week or so. It could be that higher earnings and more lasting job tenure might be assured to these unskilled workers if ways and means were found, through mechanization of processes or otherwise, to make the members of this group more productive individually and perhaps collectively. Unionization of the banking or brokerage industry or both might force employers to give more attention to the productive processes of these "boys in the back office." Mechanization, however, would probably result in a shrinkage of the labor force necessary to perform any particular task.

NYSE Bond Brokers Elect New Officers

The Association of Bond Brokers of the New York Stock Exchange has elected Roland L. DeHaan, of Mabon & Co., President; C. Peabody Mohun, of Stern, Lauer & Co., Vice-President; and Samuel L. Hornstein, of Carl M. Loeb, Rhoades & Co., Secretary-Treasurer.

Elected governors of the Association are Douglas G. Bonner, of Bonner & Gregory; George F. Hackl, Jr., of Laird, Bissell & Meeds; Howard M. Ernst, of Ernst & Co.; Maurice A. Gilmartin, Jr., of Charles E. Quincey & Co.; Thomas J. Hickey, of Vilas & Hickey; J. C. Luitweiler, of Bendix, Luitweiler & Co.; Sylvester P. Larkin, of Pflugfelder & Rust; John F. McLaughlin, of McLaughlin, Reuss & Co.; Solomon Litt, of Asiel & Co.; and Henry S. Allen, Jr., of Garvin, Bantel & Co.

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